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904(d) and 960 with respect to the subpart F inclusion, the shipping limitation deficit of (50u) is allocated proportionately to reduce general limitation earnings of 100u and passive limitation earnings of 100u. Thus, general limitation earnings are reduced by 25u to 75u (100u general limitation earnings/200u total earnings in positive separate categories × (50u) shipping deficit = 25u reduction), and passive limitation earnings are reduced by 25u to 75u (100u passive earnings/200u total earnings in positive separate categories × (50u) shipping deficit = 25u reduction). All of CFC's post-1986 foreign income taxes with respect to passive limitation earnings are deemed paid by A under section 960 with respect to the 100u subpart F inclusion of passive income (75u inclusion (numerator limited to denominator under paragraph (i)(4) of this section)/75u passive earnings). After the inclusion and deemed-paid taxes are computed, at the close of 1998 CFC has 100u of general limitation earnings, 0 of passive limitation earnings (100u of foreign personal holding company income − 100u inclusion), and a (50u) deficit in shipping limitation earnings.

Example 2. (i) The facts are the same as in *Example 1* with the addition of the following facts. In 1999, CFC distributes 150u to A. CFC has 100u of previously-taxed earnings and profits described in section 959(c)(2) attributable to 1998, all of which is passive limitation earnings and profits. Under section 959(c), 100u of the 150u distribution is deemed to be made from earnings and profits described in section 959(c)(2). The remaining 50u is deemed to be made from earnings and profits described in section 959(c)(3). The entire dividend distribution of 50u is treated as made out of CFC's general limitation earnings and profits. See section 904(d)(3)(D).

(ii) For purposes of computing post-1986 undistributed earnings under section 902 with respect to the 1999 dividend of 50u, the shipping limitation accumulated deficit of (50u) reduces general limitation earnings and profits of 100u to 50u. Thus, 100% of CFC's post-1986 foreign income taxes with respect to general limitation earnings are deemed paid by A under section 902 with respect to the 1999 dividend of 50u (50u dividend/50u general limitation earnings). After the deemed-paid taxes are computed, at the close of 1999 CFC has 50u of general limitation earnings (100u opening balance—50u distribution), 0 of passive limitation earnings, and a (50u) deficit in shipping limitation earnings.

(6) *Effective date.* This paragraph (i) applies to taxable years of a controlled foreign corporation beginning after March 3, 1997.

[T.D. 7120, 36 FR 10852, June 4, 1971; 36 FR 11924, June 23, 1971, as amended by T.D. 7334, 39 FR 44211, Dec. 23, 1974; 40 FR 1014, Jan. 6, 1975; T.D. 7649, 44 FR 60088, 60089, Oct. 18, 1979; T.D. 7843, 47 FR 50472, Nov. 8, 1982; 47 FR 55477, Dec. 10, 1982; T.D. 7961, 49 FR 26225, June 27, 1984; T.D. 8704, 62 FR 21, Jan. 2, 1997]

§ 1.960–2 Interrelation of section 902 and section 960 when dividends are paid by third-, second-, or first-tier corporation.

(a) *Scope of this section.* This section prescribes rules for the application of section 902 in a case where dividends are paid by a third-, second-, or first-tier corporation, as the case may be, from its earnings and profits for a taxable year when an amount attributable to such earnings and profits is included in the gross income of a domestic corporation under section 951, or when such earnings and profits are attributable to an amount excluded from the gross income of such foreign corporation under section 959(b) and §1.959–2, with respect to the domestic corporation. In making determinations under this section, any portion of a distribution received from a first-tier corporation by the domestic corporation which is excluded from the domestic corporation's gross income under section 959(a) and §1.959–1, or any portion of a distribution received from an immediately lower-tier corporation by the third-, second-, or first-tier corporation which is excluded from such foreign corporation's gross income under section 959(b) and §1.959–2, shall be treated as a dividend for purposes of taking into account under section 902 any foreign income taxes paid by such third-, second-, or first-tier corporation which are not deemed paid by the domestic corporation under section 960(a)(1) and §1.960–1.

(b) *Application of section 902(b) to dividends received from an immediately lower-tier corporation.* For purposes of paragraph (a) of this section and paragraph (c)(1)(i) of §1.960–1, section 902(b) shall apply to all dividends received by the first- or second-tier corporation from the immediately lower-tier corporation other than dividends attributable to

earnings and profits of such immediately lower-tier corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such immediately lower-tier corporation.

(c) *Application of section 902(a) to dividends received by domestic corporation from first-tier corporation.* For purposes of paragraph (a) of this section, section 902 (a) shall apply to all dividends received by the domestic corporation for its taxable year from the first-tier corporation other than dividends attributable to earnings and profits of such first-tier corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such first-tier corporation.

(d) *Allocation of earnings and profits of a first- or second-tier corporation having income excluded under section 959(b)*—(1) *First-tier corporations.* If the first-tier corporation for its taxable year receives dividends from the second-tier corporation to which in accordance with paragraph (b) of this section 902(b)(1) or section 902(b)(2) applies and other dividends from the second-tier corporation to which such sections do not apply, then in applying section 902(a) pursuant to this section and in applying section 960(a)(1) pursuant to §1.960–1(c)(1)(i), with respect to the foreign income taxes paid and deemed paid by the second-tier corporation which are deemed paid by the first-tier corporation for such taxable year under section 902(b)(1)—

(i) The earnings and profits of the first-tier corporation for such taxable year shall be considered not to include its earnings and profits which are attributable to the dividends to which section 902(b)(1) does not apply (in determining the domestic corporation's credit for the taxes paid by the second-tier corporation) or which are attributable to the dividends to which sections 902(b)(1) and 902(b)(2) do not apply (in determining the domestic corporation's credit for taxes deemed paid by the second-tier corporation) and

(ii) For the purposes of so applying section 902(a), distributions to the domestic corporation from such earnings and profits which are attributable to the dividends to which section 902(b)(1) does not apply (in determining the domestic corporation's credit for taxes paid by the second-tier corporation) or which are attributable to the dividends to which sections 902(b)(1) and 902(b)(2) do not apply (in determining the domestic corporation's credit for taxes deemed paid by the second-tier corporation) shall not be treated as a dividend.

(2) *Second-tier corporations.* If the second-tier corporation for its taxable year receives dividends from the third-tier corporation to which, in accordance with paragraph (b) of this section, section 902(b)(2) applies and other dividends from the third-tier corporation to which such section does not apply, then in applying section 902(b)(1) pursuant to this section, and in applying section 960(a)(1) pursuant to paragraph (c)(1)(i) of §1.960–1, with respect to the foreign taxes deemed paid by the second-tier corporation for such taxable year under section 902(b)(2)—

(i) The earnings and profits of the second-tier corporation for such taxable year shall be considered not to include its earnings and profits which are attributable to such other dividends from the third-tier corporation, and

(ii) For the purposes of so applying section 902(b)(1), distributions to the first-tier corporation from such earnings and profits which are attributable to such other dividends from the third-tier corporation shall not be treated as a dividend.

(e) *Separate determinations under sections 902(a), 902(b)(1), and 902(b)(2) in the case of a first-, second-, or third-tier corporation having income excluded under section 956(b).* If in the case of a first-, second-, or third-tier corporation to which paragraph (b) or (c) of this section is applied—

(1) The earnings and profits of such foreign corporation for its taxable year consist of—

(i) Dividends received from an immediately lower-tier corporation which are attributable to amounts included in the gross income of a domestic corporation under section 951 with respect to the immediately lower- or lower-tier corporations, and

(ii) Other earnings and profits, and

(2) The effective rate of foreign income taxes paid or accrued by such foreign corporation on the dividends described in paragraph (e)(1)(i) of this section is higher or lower than the effective rate of foreign income taxes attributable to its earnings and profits described in paragraph (e)(1)(ii) of this section,

then, for purposes of applying paragraph (b) or (c) of this section to dividends paid by such foreign corporation to the domestic corporation or the first- or second-tier corporation, sections 902(a), 902(b)(1), and 902(b)(2) shall be applied separately to the portion of the dividend which is attributable to the earnings and profits described in paragraph (e)(1)(i) of this section and separately to the portion of the dividend which is attributable to the earnings and profits described in paragraph (e)(1)(ii) of this section. In making a separate determination with respect to the earnings and profits described in paragraph (e)(1)(i) or (e)(1)(ii) of this section, only the foreign income taxes paid or accrued (or, in the case of earnings and profits of a first- or second-tier corporation described in paragraph (e)(1)(ii) of this section, deemed to be paid) by such foreign corporation on the income attributable to such earnings and profits shall be taken into account. For purposes of applying this paragraph (e), no part of the foreign income taxes paid, accrued, or deemed to be paid which are attributable to the earnings and profits described in paragraph (e)(1)(ii) of this section shall be attributed to the dividend described in paragraph (e)(1)(i) of this section; and no part of the foreign income taxes paid or accrued on the dividend described in paragraph (e)(1)(i) of this section shall be attributed to the earnings and profits described in paragraph (e)(1)(ii) of this section. Furthermore, the effective rate of foreign income taxes paid or accrued shall be determined consistently with the principles of paragraphs (b)(3)(iv) and (viii) and (c) of §1.954–1. Thus, for example, the effective rate of foreign income taxes on dividends received by such foreign corporation shall be determined by taking into account any intercorporate dividends received deduction allowed to such corporation for such dividends.

(f) *Illustrations.* The application of this section may be illustrated by the following examples. In all of the examples other than examples 6, 7, 9 and 10, it is assumed that the effective rate of foreign income taxes paid or accrued by the first- or second-tier corporation, as the case may be, in respect to dividends received from the immediately lower-tier corporation, is the same as the effective rate of foreign income taxes paid or accrued by the first- or second-tier corporation with respect to its other income:

Example 1. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include $50 in gross income attributable to the earnings and profits of A Corporation for such year, but is not required to include any amount in gross income under section 951 attributable to the earnings and profits of B Corporation. For such year, B Corporation distributes a dividend of $45, but A Corporation does not make any distributions. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1), after applying section 902(b)(1) for such year of A Corporation, are determined as follows upon the basis of the facts assumed:

B Corporation (second-tier corporation):		
Pretax earnings and profits		$100.00
Foreign income taxes (40%)		40.00
Earnings and profits		60.00
Dividends paid to A Corporation		$45.00
Foreign income taxes paid by B Corporation on or with respect to its accumulated profits		40.00
Foreign income taxes of B Corporation deemed paid by A Corporation for 1978 under section 902(b)(1) ($45/$60 × $40)		30.00
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividends from B Corporation	$45.00	
Other income	100.00	
Total pretax earnings and profits		145.00
Foreign income taxes (20%)		29.00
Earnings and profits		116.00
Foreign income taxes paid, and deemed to be paid, by A Corporation on or with respect to its earnings and profits ($29 + $30)		59.00
Amount required to be included in N Corporation's gross income under section 951 with respect to A Corporation		50.00
Dividends paid to N Corporation		0
N Corporation (domestic corporation):		
Foreign income taxes of A Corporation deemed paid by N Corporation for 1978 under section 960(a)(1) ($50/$116 × $59)		25.43

Example 2. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one

class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include in gross income $150 attributable to the earnings and profits of B Corporation for such year, which B Corporation distributes during such year. Corporation N is not required for 1978 to include any amount in gross income under section 951 attributable to the earnings and profits of A Corporation, but A Corporation distributes for such year $135 from its earnings and profits attributable to B Corporation's dividend. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1)(C) and section 902(a) are determined as follows upon the basis of the facts assumed:

B Corporation (second-tier corporation):		
Pretax earnings and profits		$250.00
Foreign income taxes (20%)		50.00
Earnings and profits		200.00
Amounts required to be included in N Corporation's gross income under section 951 with respect to B Corporation		150.00
Dividends paid to A Corporation		150.00
Foreign income taxes paid on or with respect to earnings and profits of B Corporation		50.00
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividends from B Corporation	$150.00	
Other income	200.00	
Total pretax earnings and profits		350.00
Foreign income taxes (10%)		35.00
Earnings and profits		315.00
Dividends paid to N Corporation		135.00
Foreign income taxes paid by A Corporation on or with respect to its accumulated profits		35.00
N Corporation (domestic corporation):		
Foreign income taxes of B Corporation deemed paid by N Corporation for 1978 under section 960(a)(1) ($150/$200 × $50)		37.50
Foreign income taxes of A Corporation deemed paid by N Corporation for 1978 under section 902(a) ($135/$315 × $35)		15.00
Total foreign income taxes deemed paid by N Corporation under section 901		52.50

Example 3. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include $180 in gross income attributable to the earnings and profits of A Corporation for such year, but is not required to include any amount in gross income under section 951 attributable to the earnings and profits of B Corporation. Corporation B distributes from its earnings and profits for 1978 a dividend of $50. For 1978, A Corporation distributes $180 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross income for such year with respect to A Corporation and $20 from its other earnings and profits. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1) and section 902(a) are determined as follows upon the basis of the facts assumed:

B Corporation (second-tier corporation):		
Pretax earnings and profits		$100.00
Foreign income taxes (40%)		40.00
Earnings and profits		60.00
Dividends paid to A Corporation		50.00
Foreign income taxes paid by B Corporation on or with respect to its accumulated profits		40.00
Foreign income taxes of B Corporation deemed paid by A Corporation for 1978 under section 902(b)(1) ($50/$60 × $40)		33.33
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividends from B Corporation	$50.00	
Other income	200.00	
Total pretax earnings and profits		250.00
Foreign income taxes (10%)		25.00
Earnings and profits		225.00
Foreign income taxes paid, and deemed to be paid, by A Corporation on or with respect to its earnings and profits ($25.00 + $33.33)		58.33
Amounts required to be included in N Corporation's gross income for 1978 under section 951 with respect to A Corporation		180.00
Dividends paid to N Corporation:		
Dividends to which section 902(a) does not apply (from A Corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N Corporation's gross income with respect to A Corporation)	180.00	
Dividends to which section 902(a) applies (from A Corporation's other earnings and profits)	20.00	
Total dividends paid to N Corporation		$200.00
N Corporation (domestic corporation):		
Foreign income taxes of corporations A and B deemed paid by N Corporation under section 960(a)(1) ($180/$225 × $58.33)		46.66
Foreign income taxes of corporations A and B deemed paid by N Corporation under section 902(a) ($20/$225 × $58.33)		5.18
Total foreign income taxes deemed paid by N Corporation under section 901		51.84

Example 4. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include in gross income $150 attributable to the earnings and profits of B Corporation for such year and $22.50 attributable to the earnings and profits of A Corporation for such year. For 1978, B Corporation distributes $175, consisting of $150 from its earnings and profits attributable to amounts required under section 951 to be included in N Corporation's gross income with respect to B Corporation and $25 from its other earnings

and profits. Corporation A does not distribute any dividends for 1978. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1) are determined as follows upon the basis of the facts assumed:

B Corporation (second-tier corporation):		
Pretax earnings and profits		$250.00
Foreign income taxes (20%)		50.00
Earnings and profits		200.00
Amounts required to be included in N Corporation's gross income under section 951 for 1978 with respect to B Corporation		150.00
Dividends paid by B Corporation:		
Dividends to which section 902(b) does not apply (from B Corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N Corporation's gross income with respect to B Corporation)	$150.00	
Dividends to which section 902(b)(1) applies (from B Corporation's other earnings and profits)	25.00	
Total dividends paid to A Corporation		175.00
Foreign income taxes paid by B Corporation on or with respect to its accumulated profits		50.50
Foreign income taxes of B Corporation deemed paid by A Corporation for 1978 under section 902(b)(1) ($25/$200 × $50)		6.25
A Corporation (first-tier corporation):		
Pretax earnings and profits		175.00
Foreign income tax (10 percent)		17.50
Earnings and profits		157.50
Earnings and profits after exclusion of amounts attributable to dividends to which section 902(b) does not apply ($157.50 less [$150 − ($150 × 0.10)])		22.50
Amount required to be included in N Corporation's gross income for 1978 under section 951 with respect to A Corporation		22.50
Dividends paid to N Corporation		0
N Corporation (domestic corporation):		
Foreign income taxes deemed paid by N Corporation under section 960(a)(1)(C) with respect to A Corporation:		
Tax actually paid by A Corporation ($22.50/$157.50 × $17.50)	2.50	
Tax of B Corporation deemed paid by A Corporation under section 902(b)(1) ($22.50/$22.50 × $6.25)	6.25	
		8.75
Foreign income taxes deemed paid by N Corporation under section 960(a)(1)(C) with respect to B Corporation ($150/$200 × $50)		37.50
Total taxes deemed paid under section 960(a)(1)(C)		46.20

Example 5. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include in gross income $150 attributable to the earnings and profits of B Corporation for such year and $22.50 attributable to the earnings and profits of A Corporation for such year. For 1978, B Corporation distributes $175, consisting of $150 from its earnings and profits attributable to amounts required under section 951 to be included in N Corporation's gross income with respect to B Corporation and $25 from its other earnings and profits. For 1978, A Corporation distributes $225, consisting of $135 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross, income with respect to B Corporation, $22.50 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross income with respect to A Corporation, and $67.50 from its other earnings and profits. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1) and section 902(a)(1) are determined as follows upon the basis of the facts assumed:

B Corporation (second-tier corporation):		
Pretax earnings and profits		$250.00
Foreign income taxes (20%)		50.00
Earnings and profits		200.00
Amounts required to be included in N Corporation's gross income for 1978 under section 951 with respect to B Corporation		150.00
Dividends paid by B Corporation:		
Dividends to which section 902(b) does not apply (from B Corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N Corporation's gross income with respect to B Corporation)	$150.00	
Dividends to which section 902(b) applies (from B Corporation's other earnings and profits)	$25.00	
Total dividends paid to A Corporation		$175.00
Foreign income taxes paid by B Corporation on or with respect to its accumulated profits		50.00
Foreign income taxes of B Corporation deemed paid by A Corporation for 1978 under section 902(b)(1) ($25/$200 × $50)		6.25
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividends received from B Corporation	175.00	
Other income	100.00	
Total pretax earnings and profits		275.00
Foreign income taxes (10 percent)		27.50
Earnings and profits		247.50
Earnings and profits after exclusion of amounts attributable to dividends to which section 902(b) does not apply ($247.50 less [$150 − ($150 × 0.10)])		112.50
Amount required to be included in N Corporation's gross income for 1978 under section 951 with respect to A Corporation		22.50

Distributions paid by A Corporation:		
Dividends to which section 902(a) does not apply (From A Corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N Corporation's gross income with respect to A Corporation)	22.50	
Dividends to which section 902(a) applies (from A Corporation's other earnings and profits)	202.50	
Total dividends paid to N Corporation	225.00	
N Corporation (domestic corporation):		
Foreign income taxes deemed paid by N Corporation under section 960(a)(1) with respect to—		
B Corporation ($150/$200 × $50)		37.50
A Corporation:		
Tax paid by A Corporation ($22.50/ $247.50 × $27.50)	2.50	
Tax of B Corporation deemed paid by A Corporation under section 902(b)(1) ($22.50/ $112.50 × $6.25)	1.25	3.75
Total taxes deemed paid under section 960(a)(1)		41.25
Foreign income taxes deemed paid by N Corporation under section 902(a)(1) with respect to A Corporation:		
Tax paid by A Corporation ($200.50/$247.50 × $27.50)	22.50	
Tax of B Corporation deemed paid by A Corporation ($67.50/ $112.50 × $6.25)	3.75	
Total taxes deemed paid under section 902(a)(1)		26.52
Total foreign income taxes deemed paid by N Corporation under section 901		67.05

Example 6. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. A and B corporations are organized under the laws of foreign country X. All of B corporation's assets used in a trade or business are located in country X. Country X imposes an income tax of 20 percent on B corporation's income. For 1978, N Corporation is required under section 951 to include in gross income $100 attributable to the earnings and profits of B Corporation for such year. For 1978, B Corporation distributes $150, consisting of $100 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross income with respect to B Corporation and $50 from its other earnings and profits. Country X imposes an income tax of 10 percent on A Corporation's income but exempts from tax dividends received from B Corporation. N is not required to include any amount in gross income under section 951 for 1978 attributable to the earnings and profits of A Corporation for such year. For 1978, A Corporation distributes $175, consisting of $100 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross income with respect to B Corporation, and $75 from its other earnings and profits. The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1) and section 902(a) are determined as follows on the basis of the facts assumed:

B Corporation (2d-tier corporation):		
Pretax earnings and profits		$200.00
Foreign income taxes (20%)		40.00
Earnings and profits		160.00
Amount required to be included in N Corporation's gross income for 1978 under section 951 with respect to B Corporation		100.00
Dividends paid by B Corporation:		
Dividends to which section 902(b) does not apply (from B corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N corporation's gross income with respect to B corporation)	$100.00	
Dividends to which section 902(b)(1) applies (from B corporation's other earnings and profits)	50.00	
Total dividends paid to A corporation		150.00
Foreign income taxes of B corporation deemed paid by A corporation for 1978 under section 902(b)(1) ($50/$100 × $40)	12.50	
A corporation (1st-tier corporation):		
Pretax earnings and profits:		
Dividends received from B corporation	150.00	
Other income	100.00	
Total pretax earnings and profits		250.00
Foreign income taxes:		
On dividends received from B corporation	None	
On other income ($100 × 0.10)	10.00	
Total foreign income taxes		10.00
Earnings and profits:		
Attributable to dividends received from B corporation to which section 902(b) does not apply		100.00
Attributable to other income:		
Attributable to dividends received from B Corporation to which section 902(b)(1) applies	50.00	
Attributable to other income ($100 − $10)	90.00	
Subtotal		140.00
Total earnings and profits		240.00
Earnings and profits after exclusion of amounts attributable to dividends to which section 902(b) does not apply ($240 − $100)		140.00
Amount required to be included in N corporation's gross income for 1978 under section 951 with respect to A corporation		None

Dividends paid by A corporation:		
Dividends to which section 902(a) does not apply (from A corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N corporation's gross income with respect to A corporation)	None	
Dividends to which section 902(a) applies (from A corporation's other earnings and profits)	$175.00	
Total dividends paid to N corporation		$175.00
N corporation (domestic corporation):		
Foreign income taxes deemed paid by N corporation under section 960(a)(1) with respect to B corporation ($100/$160 × $40)		25.00
Foreign income taxes deemed paid by N corporation under section 902(a) with respect to A corporation (allocation of earnings and profits being made under pars. (c)(2) and (d) of this section):		
Tax paid by A corporation in respect to dividends received from B Corporation to which section 902(b) does not apply ($100/ $100 × $0)	None	
Tax paid by A corporation in respect to its other income ($75/ $140 × $10)	5.36	
Tax paid by B corporation deemed paid by A corporation in respect to such other income ($75/$140 × $12.50)	6.70	
Total taxes deemed paid under section 902(a)		12.06
Total foreign income taxes deemed paid by N corporation under section 901	37.06	

Example 7. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include in gross income $150 attributable to the earnings and profits of B Corporation for such year and $47.50 attributable to the earnings and profits of A Corporation for such year. For 1978, B Corporation distributes $200, consisting of $150 from its earnings and profits attributable to the amount required under section 951 to be included in N Corporation's gross income with respect to B Corporation and $50 from its other earnings and profits. The country under the laws of which A Corporation is incorporated imposes an income tax of 5 percent on dividends received from a subsidiary corporation and 20 percent on other income. For 1978, A Corporation distributes $100 from its earnings and profits to N Corporation, such amount being attributable under paragraph (e) of §1.959–3 to the amount required under section 951 to be included in N Corporation's gross income with respect to B Corporation.

The foreign income taxes deemed paid by N Corporation for 1978 under section 960(a)(1) and section 902(a) are determined as follows on the basis of the facts assumed:

B Corporation (2d-tier corporation):		
Pretax earnings and profits		$250.00
Foreign income taxes (20 percent)		150.00
Earnings and profits		200.00
Amount required to be included in N Corporation's gross income for 1978 under section 951 with respect to B corporation		150.00
Dividends paid by B corporation:		
Dividends to which section 902(b) does not apply (from B corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N corporation's gross income with respect to B corporation)	$150.00	
Dividends to which section 902(b)(1) applies (from B corporation's other earnings and profits)	50.00	
Total dividends paid to A corporation		200.00
Foreign income taxes of B corporation deemed paid by A corporation for 1978 under section 902(b)(1) ($50/$200 × $50)		12.50
A corporation (1st-tier corporation):		
Pretax earnings and profits:		
Dividends received from B corporation	200.00	
Other income	100.00	
Total pretax earnings and profits		300.00
Foreign income taxes:		
On dividends received from B corporation to which section 902(b) does not apply ($150 × 0.05)		7.50
On other income:		
Dividends received from B corporation to which section 902(b)(1) applies ($50 × 0.05)	2.50	
Other income of A corporation ($100 × 0.20)	20.00	
Total		22.50
Total foreign income taxes		30.00
Earnings and profits:		
Attributable to dividends received from B corporation to which section 902(b) does not apply ($150 − $7.50)		142.50
Attributable to other income:		
Attributable to dividends received from B corporation to which section 902(b)(1) applies ($50 − $2.50)	47.50	
Attributable to other income ($100 − $20	80.00	
Total		127.50
Total earnings and profits		270.00
Earnings and profits after exclusion of amounts attributable to dividends to which section 902(b) does not apply ($270 less $142.50)		127.50
Amount required to be included in N corporation's gross income for 1978 under section 951 with respect to A corporation		47.50

Dividends paid by A Corporation:		
Dividends to which section 902(a) does not apply (from A corporation's earnings and profits in respect of which an amount is required under section 951 to be included in N corporation's gross income with respect to A corporation)	None	
Dividends to which section 902(a)(1) applies (from A corporation's other earnings and profits)	$100.00	
Total dividends paid to N corporation		$100.00
N Corporation (domestic corporation):		
Foreign income taxes deemed paid by N corporation under section 960(a)(1) with respect to—B corporation ($150/$200 × $50)		37.50
A corporation (allocation of earnings and profits being made under § 1.960–1(c)(3) and par. (d) of this section):		
Tax paid by A corporation ($47.50/$127.50 × $22.50)	8.38	
Tax of B corporation deemed paid by A corporation under section 902(b)(1) ($47.50/$127.50 × $12.50)	4.66	
Total		13.04
Total taxes deemed paid under section 960(a)(1)		50.54
Foreign income taxes deemed paid by N corporation under section 902(a) with respect to A corporation (allocations of earnings and profits being made under pars. (c)(2) and (d) of this section) ($100/$142.50 × $7.50)	5.26	
Total foreign income taxes deemed paid by N Corporation under section 901		55.80

Example 8. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B, which owns all the one class of stock of controlled foreign corporation C. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required under section 951 to include $50 attributable to the earnings and profits of C Corporation and $15 attributable to the earnings and profits of B Corporation in its gross income. N Corporation is not required to include any amount in its gross income with respect to A Corporation under section 951 in 1978. For such year, C Corporation distributes $75 to B Corporation. B Corporation in turn distributes $60 of its earnings and profits to A Corporation. A Corporation has no other earnings and profits for 1978 and distributes $45 of its earnings and profits to N Corporation. The foreign income taxes deemed paid by N Corporation under section 960(a)(1) and section 902(a) are determined as follows on the basis of the facts assumed:

C Corporation (third-tier corporation):

Pretax earnings and profits	$150.00
Foreign taxes paid by C Corporation (30%)	45.00
Earnings and profits	105.00
Amount required to be included in gross income of N Corporation under section 951 with respect to C Corporation	50.00
Dividend to B Corporation	75.00
Dividend from earnings and profits to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	50.00
Dividend from earnings and profits to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income with respect to C Corporation)	$25.00

Amount of foreign income taxes of C Corporation deemed paid by B Corporation under section 902(b)(2) and § 1.960–2(b):

$$\frac{\text{Dividend to B Corporation less portion of dividend from earnings included in N Corporation's gross income under section 951 with respect to C Corporation}}{\text{Earnings and profits of C Corporation}} \times \text{Taxes paid by C Corporation}$$

($25/$105 × $45) $10.71

B Corporation (second-tier corporation):

Pretax earnings and profits:		
Dividend from C Corporation	$75.00	
Other earnings and profits	225.00	
Total pretax earnings and profits		$300.00
Foreign income taxes paid by B Corporation (40%)		120.00
Earnings and profits		180.00
Earnings and profits attributable to amounts to which section 902(b)(2) does not apply (amounts included in N Corporation's gross income under section 951 with respect to C Corporation ($50 − ($50 × .40))		30.00
Other earnings and profits		150.00
Earnings and profits of B Corporation after exclusion for amounts to which section 902(b)(2) does not apply (amounts attributable to earnings and profits which are included in N Corporation's gross income under section 951 with respect to C Corporation) ($180 − $30)		150.00

Amount to be included in gross income under section 951 of N Corporation with respect to B Corporation	15.00
Amount of dividend to A Corporation	60.00
Dividend from earnings and profits to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	30.00
Dividend from earnings and profits to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)	15.00
Dividend from other earnings and profits (attributable to amounts not included in N Corporation's gross income under section 951 with respect to B or C Corporation)	15.00

Foreign income taxes of B Corporation deemed paid by A Corporation under section 902(b)(1) and § 1.960–2(b):

$$\frac{\text{Dividend to A Corporation less portion of dividend from earnings included in N Corporation's gross income under section 951 with respect to B Corporation}}{\text{Earnings and profits of B Corporation}} \times \text{Taxes paid by B Corporation}$$

($45/$180 × 120) $30.00

Foreign income taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation under section 902(b)(1) in accordance with § 1.960–2(b) and § 1.960–2(d)(2)(i) and (ii):

$$\frac{\text{Dividend to A Corporation less portion of dividend from earnings included in N Corporation's gross income under section 951 with respect to B Corporation and C Corporation}}{\text{Earnings and profits of B Corporation less earnings and profits attributable to amounts included in N Corporation's gross income with respect to C Corporation}} \times \text{Taxes paid by C Corporation which are deemed paid by B Corporation}$$

($15/$150 × $10.71)		1.07
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividend from B Corporation	$60.00	
Other earnings and profits	0	
Total pretax earnings and profits		$60.00
Foreign income taxes paid by A Corporation (10%)		6.00
Earnings and profits		54.00
Earnings and profits attributable to amounts to which section 902(b)(2) does not apply (attributable to amounts previously included in N Corporation's gross income under section 951 with respect to C Corporation) ($30 − ($30X.10))		27.00
Earnings and profits attributable to amounts to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation) ($15 − ($15X.10))		13.50
Other earnings and profits ($15—($15X.10))		13.50
Earnings and profits of A Corporation after exclusion for amounts to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation) ($54.00 − $13.50)		40.50
Earnings and profits of A Corporation after exclusion for amounts to which sections 902(b)(1) and (2) do not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B or C Corporation) ($40.50 − $27.00)		13.50
Dividend to N Corporation		45.00

Dividend from earnings and profits to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$27.00
Dividend from earnings and profits to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)	13.50
Dividend from earnings and profits to which section 902(a) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to A Corporation)	0
Dividend from other earnings and profits (attributable to amounts not included in N Corporation's gross income under section 951 with respect to A, B, or C Corporation)	4.50

N Corporation (domestic corporation):

Foreign income taxes deemed paid by N Corporation under section 960(a)(1) and § 1.960–1(c)(1)(ii) with respect to C Corporation:

$$\frac{\text{Amount included in N Corporation's gross income under section 951 with respect to C Corporation}}{\text{Earnings and profits of C Corporation}} \times \text{Taxes paid by C Corporation}$$

($50/$105 × $45.00) $21.43

Foreign income taxes deemed paid by N Corporation under section 960(a)(1) and § 1.960–1(c)(1)(i) with respect to B Corporation 11.07

Taxes paid by B Corporation:

$$\frac{\text{Amount included in N Corporation's gross income under section 951 with respect to B Corporation}}{\text{Earnings and profits of B Corporation}} \times \text{Taxes paid by B Corporation}$$

($15/$180 × $120) $10.00

Taxes deemed paid by B Corporation in accordance with § 1.960–2(d)(2)(i):

$$\frac{\text{Amount included in N Corporation's gross income under section 951 with respect to B Corporation}}{\text{Earnings and profits of B Corporation less earnings and profits attributable to amounts included in N Corporation's gross income with respect to C Corporation}} \times \text{Taxes paid by C Corporation which are deemed paid by B Corporation}$$

($15/$150 × $10.71) $1.07

Total taxes deemed paid by N Corporation under section 960(a)(1) $32.50

Foreign income taxes deemed paid by N Corporation under section 902(a):

Taxes paid by A Corporation in accordance with § 1.960–2(c):

$$\frac{\text{Dividend to N Corporation less portion of dividend from earnings included in N Corporation's gross income under section 951 with respect to A Corporation}}{\text{Earnings and profits of A Corporation}} \times \text{Taxes paid by A Corporation}$$

($45/$54 × $6) $5.00

Taxes paid by B Corporation deemed paid by A Corporation in accordance with §§ 1.960–2(c) and 1.960–2(d)(1)(i) and (ii):

$$\frac{\text{Dividend to N Corportion less portionof dividend from earnings included in N Corporation's gross income under section 951 with respect to A and B Corporations}}{\text{Earnings and profits of A Corporation less earnings and profits attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation}} \times \text{Taxes paid by B Corporation which are deemed paid by A Corporation}$$

($31.50/$40.50 × $30.00) 23.33

Taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation in accordance with §§ 1.960–2(c) and 1.960–2(d)(1)(i) and (ii):

$$\frac{\text{Dividend to N Corporation less portion of dividend from earnings included in N Corporation's gross income under section 951 with respect to A, B, and C Corporations}}{\text{Earnings and profits of A Corporation less earnings and profits attributable to amounts included in N Corporation's gross income under section 951 with respect to B and C Corporations}} \times \text{Taxes deemed paid by B Corporation which are deemed paid by A Corporation}$$

($4.50/$13.50 × $1.07) ..... .36

Total taxes deemed paid by N Corporation under section 902(a) $28.69

Total foreign income taxes deemed paid by N Corporation under section 901 ..... $61.19

Example 9. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B, which owns all the one class of stock of controlled foreign corporation C. A and B Corporations are organized under the laws of foreign country X. C Corporation is organized under the laws of foreign country Y. All of B Corporation's assets used in a trade or business are located in country X. All such corporations use the calendar year as the taxable year. For 1978, N Corporation is required to include in its gross income under section 951, $50 attributable to the earnings and profits of C Corporation and $100 attributable to the earnings and profits of B Corporation. N Corporation is not required to include any amount in its gross income under section 951 with respect to A Corporation. Country X imposes an income tax of 10 percent on dividends from foreign subsidiaries, 20 percent on dividends from domestic subsidiaries, and 40 percent on other earnings and profits. For 1978, C Corporation distributes $75 to B Corporation. For such year, B Corporation distributes $175 of its earnings and profits to A Corporation. A Corporation has no other earnings and profits for 1978 and distributes $130 of its earnings and profits to N Corporation. The foreign income taxes deemed paid by N Corporation under sections 960(a)(1) and 902(a) are determined as follows on the basis of the facts assumed:

C Corporation (third-tier corporation):

Pretax earnings and profits	$150.00
Foreign income taxes paid by C Corporation (30%)	45.00
Earnings and profits	105.00
Amount required to be included in gross income of N Corporation under section 951 with respect to C Corporation	50.00
Dividend to B Corporation	75.00

Dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$50.00	
Dividend to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation)	25.00	
Amount of foreign income taxes of C Corporation deemed paid by B Corporation under section 902(b)(2) and § 1.960–2(b) ($25/$105 × $45) (For formula see § 1.960–2(g)(1)(i)(A))		10.71

B Corporation (second-tier corporation):

Pretax earnings and profits:		
Dividend from C Corporation	$75.00	
Other earnings and profits	225.00	
Total pretax earnings and profits		$300.00
Foreign income taxes paid by B Corporation		97.50
On dividends received from C Corporation to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($50 × .10)	$5.00	
On dividend from C Corporation to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation) ($25 × .10)	2.50	
On other income of B Corporation ($225 × .40)	90.00	
Earnings and profits		202.50
Attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($50 − $5)	45.00	
Attributable to dividend from C Corporation to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation) ($25 − $2.50)	$22.50	
Attributable to other income of B Corporation ($225 − $90)	135.00	
Earnings and profits after exclusion of amounts attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($202.50 − $45)		$157.50
Amount required to be included in N Corporation's gross income under section 951 with respect to B Corporation		100.00
Dividend paid by B Corporation		175.00
Dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$45.00	
Dividend to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)	100.00	
Dividend from other earnings and profits (attributable to amounts not included in N Corporation's gross income with respect to B or C Corporation)	30.00	
Foreign income taxes of B Corporation deemed paid by A Corporation under section 902(b)(1) (separate tax rate applicable to dividend received by B Corporation allocation in accordance with § 1.960–2(e)) (for formula see § 1.960–2(g)(1)(ii)(A)(*2*) (*i*) and (*ii*)):		

Tax paid by B Corporation on earnings previously taxed with respect to C Corporation or lower-tiers which is deemed paid by A Corporation:

$$\frac{\text{Portion of dividend to A Corporation from earnings included in N Corporation's gross income under section 951 with respect to C Corporation or lower-tiers}}{\text{Earnings and profits of B Corporation included in N Corporation's gross income under section 951 with respect to C Corporation or lower-tiers}} \times \text{Tax paid by B Corporation on dividend received by B Corporation from earnings included in N Corporation's gross income with respect to C Corporation or lower-tiers}$$

($45/$45 × $5) $5.00

Tax paid by B Corporation on earnings not previously taxed with respect to C Corporation or lower-tiers which is deemed paid by A Corporation:

$$\frac{\text{Portion of dividend to A Corporation which is from earnings not included in N Corporation's gross income under section 951 with respect to B Corporation or lower-tiers}}{\text{Earnings and profits of B Corporation not included in N Corporation's gross income under section 951 with respect to C Corporation or lower-tiers}} \times \text{Tax paid by B Corporation on earnings not included in N Corporation's gross income with respect to C Corporation or lower-tiers}$$

($30/157.50 × $92.50)		$17.62
Foreign income taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation under section 902(b)(1) ($30/$157.50 × $10.71)		2.04
(For formula see § 1.960–2(g)(1)(ii)(B)(*1*))		
A Corporation (first-tier corporation):		
Pretax earnings and profits:		
Dividend from B Corporation	$175.00	
Other income	0	
Total pretax earnings and profits		$175.00
Foreign income taxes paid by A Corporation (20%)		35.00
Earnings and profits		140.00
Attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($45 − ($45 × .20))	$36.00	
Attributable to amounts to which section 902(b)(1) does not apply (Attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation) ($100 − ($100 × .20))	80.00	
Attributable to other earnings and profits (attributable to amounts not included in N Corporation's gross income with respect to B or C Corporation)	24.00	
Earnings and profits after exclusion for amounts to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation) ($140 − $80)		$60.00
Earnings and profits after exclusion for amounts to which sections 902(b)(1) and 902(b)(2) do not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B or C Corporation) ($60 − $36)		24.00
Amount required to be included in N Corporation's gross income under section 1951 with respect to A Corporation		None
Dividend to N Corporation		$130.00
Dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$36.00	
Dividend to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)	80.00	
Dividend to which section 902(a) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to A Corporation)	0	
Dividend from other earnings and profits (attributable to amounts not included in N Corporation's gross income with respect to A, B, or C Corporation)	14.00	
N Corporation (domestic corporation):		
Foreign income taxes deemed paid by N Corporation under section 960(a)(1) and § 1.960–1(c) with respect to C Corporation ($50/$105 × $45)		$21.43
(for formula see § 1.960–2(g)(2)(i)(A))		
Foreign income taxes deemed paid by N Corporation under section 960(a)(1) with respect to B Corporation (allocation of earnings and profits being made in accordance with § 1.960–1(c)(3) and § 1.960–2(e)) (Separate tax rate applicable to dividend received by B Corporation)		65.53
Taxes paid by B corporation (for formula see § 1.960–2(g)(2)(ii) (A)(*2*)):		

$$\frac{\text{Amount included in N Corporation's gross income under section 951 with respect to B Corporation}}{\text{Earnings and profits of B Corporation not included in N Corporation's gross income under section 951 with respect to C Corporation or lower tiers}} \times \text{Tax paid by B Corporation on earnings not included in N Corporation's gross income with respect to C Corporation or lower tiers}$$

($100/$157.50 × $92.50)	$58.73
Taxes (of C Corporation) deemed paid by B Corporation under section 902(b)(2) which are deemed paid by N Corporation under section 960(a)(1) ($100/$157.50 × $10.71)	6.80
(for formula see § 1.960–2(g)(2)(ii)(B)(*1*))	
Total taxes deemed paid by N Corporation under section 960(a)(1)	$86.96

Foreign income taxes deemed paid by N Corporation under section 902(a):

Taxes paid by A Corporation ($130/$140 × $35)	$32.50
(for formula see § 1.960–2(g)(1)(iii)(A)(*1*))	

Taxes paid by B Corporation deemed paid by A Corporation (Separate tax rate applicable to dividend received by B Corporation allocation required by § 1.960–2(e)) (for formula see § 1.960–2(g)(1)(iii)(B)(*2*) (*i*) and (*ii*)):

Tax paid by B Corporation on earnings previously taxed with respect to C Corporation or lower tiers which is deemed paid by N Corporation:

$$\frac{\text{Portion of dividend to N Corporation which is from earnings included in N Corporation's gross income under section 951 with respect to C Corporation or lower tiers}}{\text{Earnings and profits of A Corporation included in N Corporation's gross income under section 951 with respect to C Corporation or lower tiers}} \times \text{Tax paid by B Corporation on earnings previously taxed with respect to C Corporation or lower tiers which is deemed paid by A Corporation}$$

($36/$36 × $5)	$5.00

Tax paid by B Corporation on earnings not previously taxed with respect to C Corporation or lower tiers which is deemed paid by N Corporation:

$$\frac{\text{Portion of dividend to N Corporation which is from earnings not included in N Corporation's gross income under section 951 with respect to A Corporation or lower tiers}}{\text{Earnings and profits of A Corporation not included in N Corporation's gross income under section 951 with respect to B Corporation or lower tiers}} \times \text{Tax paid by B Corporation on earnings not previously taxed with respect to C Corporation or lower tiers which is deemed paid by A Corporation}$$

($14/$24 × $17.62)	$10.28
Taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation ($14/$24 × $2.04)	1.19
(for formula see § 1.960–2(g)(1)(iii)(C)(*1*))	
Total taxes deemed paid by N Corporation under section 902(a)	$48.97
Total foreign income taxes deemed paid by N Corporation under section 901	135.93

Example 10. The facts are the same as in example 9 except that A Corporation has other earnings and profits of $200 in 1978 and country X imposes a tax of 50 percent on A Corporation's other earnings and profits. A Corporation distributes $200 of its earnings and profits to N Corporation in 1978. The foreign income taxes paid by N Corporation under sections 960 (a)(1) and 902 (a) are determined as follows on the basis of the facts assumed:

C Corporation (third-tier corporation):

Pretax earnings and profits	$150.00
Foreign income taxes paid by C Corporation (30%)	45.00
Earnings and profits	105.00
Amount required to be included in gross income of N Corporation under section 951 with respect to C Corporation	$50.00
Dividend to B Corporation	75.00
Dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	50.00

Dividend to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation)	25.00	
Amount of foreign income taxes of C Corporation deemed paid by B Corporation under section 902(b)(2) and § 1.960–2(b) ($25/$105 × $45)		10.71
(for formula see § 1.960–2(g)(1)(i)(A))		

B Corporation (second-tier corporation):

Pretax earnings and profits:		
Dividend from C Corporation	$75.00	
Other earnings and profits	225.00	
Total pretax earnings and profits		$300.00
Foreign income taxes of B Corporation		$97.50
On dividends received from C Corporation to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($50 × .10)	$5.00	
On dividend from C Corporation to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation) ($25 × .10)	2.50	
On other income of B Corporation ($225 × .40)	90.00	
Earnings and profits		$202.50
Attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($50–$5)	$45.00	
Attributable to dividend from C Corporation to which section 902(b)(2) applies (attributable to amounts not included in N Corporation's gross income under section 951 with respect to C Corporation) ($25–$2.50)	22.50	
Attributable to other income of B Corporation ($225–$90)	135.00	
Earnings and profits after exclusion of amounts attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($202.50–$45)		157.50
Amount required to be included in N Corporation's gross income under section 951 with respect to B Corporation		100.00
Dividend paid by B Corporation		175.00
Dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$45.00	
Dividend to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)	100.00	
Dividend from other earnings and profits (attributable to amounts not included in N Corporation's gross income with respect to B or C Corporation)	30.00	
Foreign income taxes of B Corporation deemed paid by A Corporation under section 902(b)(1) with allocation required by § 1.960–2 (e):		
($45/$45 × $5)		5.00
($30/$157.50 × $92.50)		17.62
(for formula see § 1.960–2(g)(1)(ii)(A)(*2*) (*i*) and (*ii*))		
Foreign income taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation under section 902(b)(1): ($30/$157.50 × $10.71)		2.04
(for formula see § 1.960–2(g)(1)(ii)(B)(*1*))		

A Corporation (first-tier corporation):

Pretax earnings and profits:		
Dividend from B Corporation	$175.00	
Other earnings and profits	200.00	
Total pretax earnings and profits		$375.00
Foreign income taxes paid by A Corporation		135.00
On dividend received from B Corporation to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($45 × .20)	9.00	
On dividend received from B Corporation to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation) ($100 × .20)	20.00	
On dividend from B Corporation attributable to B Corporation's other earnings and profits (attributable to amounts not included in N Corporation's gross income with respect to B or C Corporation) ($30 × .20)	6.00	
On other income of A Corporation ($200 × .50)	100.00	
Earnings and profits		240.00
Attributable to dividend to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation) ($45 − $9)	36.00	
Attributable to dividend to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income with respect to B Corporation) ($100 − $20)	80.00	
Attributable to other earnings and profits of A Corporation (attributable to amounts not included in N Corporation's gross income with respect to A, B, or C Corporation) [($30 − $6) + ($200 − $100)]	124.00	
Amount required to be included in N Corporation's gross income under section 951 with respect to A Corporation		None
Earnings and profits after exclusion of amounts attributable to dividend to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B Corporation)		160.00

Earnings and profits after exclusion of amounts attributable to dividend to which sections 902(b)(1) and 902(b)(2) do not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to B and C Corporation)		124.00
Dividend to N Corporation		200.00
Dividend attributable to amounts to which section 902(b)(2) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to C Corporation)	$36.00	
Dividend attributable to amounts to which section 902(b)(1) does not apply (attributable to amounts included in N Corporation's gross income with respect to B Corporation)	80.00	
Dividend attributable to amounts to which section 902(a) does not apply (attributable to amounts included in N Corporation's gross income under section 951 with respect to A Corporation)	0	
Dividend attributable to A Corporation's other earnings and profits (attributable to amounts not included in N Corporation's gross income under section 951 with respect to A, B, or C Corporation)	$84.00	

N Corporation (domestic corporation).

Foreign income taxes deemed paid by N Corporation under section 960(a)(1) and § 1.960–1(c) with respect to C Corporation ($50/$150 × $45) (for formula see § 1.960–2(g)(2)(i)(A))		$21.43
Foreign income taxes deemed paid by N Corporation under section 960(a)(1) with respect to B Corporation (allocation of earning and profits being made in accordance with § 1.960–1(c)(3) and § 1.960–2(e))		65.53
Taxes paid by B Corporation ($100/$157.50 × $92.50) (for formula see § 1.960–2(g)(2)(ii)(A)(*2*))	$58.73	
Taxes deemed paid by B Corporation ($100 × $157.50 × $10.71) (for formula see § 1.960–2(g)(2)(ii)(B)(*1*))	6.80	
Total taxes deemed paid by N Corporation under section 960(a)(1)		86.96
Foreign income taxes deemed paid by N Corporation under section 902(a) (separate tax rate applicable to dividends received by A Corporation allocation required by § 1.960–2(e)) (for formula see § 1.960–2(g)(1)(iii)(A)(*2*) (*i*) and (*ii*)):		

Tax paid by A Corporation on earnings previously taxed with respect to B Corporation or lower tiers which is deemed paid by N Corporation:

$$\frac{\text{Portion of dividend to N Corporation which is from earnings included in N Corporation's gross income under section 951 with respect to B Corporation or lower tiers}}{\text{Earnings and profits of A Corporation included in N Corporation's gross income under section 951 with respect to B Corporation or lower tiers}} \times \text{Tax paid by A Corporation on dividends received by A Corporation from earnings included in N Corporation's gross income with respect to B Corporation or lower tiers}$$

($116/$116 × $29)	$29.00

Tax paid by A Corporation on earnings not previously taxed with respect to B Corporation or lower tiers which is deemed paid by N Corporation:

$$\frac{\text{Portion of dividend to N Corporation which is from earnings not included in N Corporation's gross income under section 951 with respect to A Corporation or lower tiers}}{\text{Earnings and profits of A Corporation not included in N Corporation's gross income under section 951 with respect to B Corporation or lower tiers}} \times \text{Tax paid by A Corporation on earnings not included in N Corporation's gross income with respect to B Corporation or lower tiers}$$

($84/$124 × $106)	$71.81	
Taxes (paid by B Corporation) deemed paid by A Corporation allocation required by § 1.960–2(e):		
($36/$36 × $5)	5.00	
($84/$124 × $17.62)	11.94	
(for formula see § 1.960–2(g)(1)(iii)(B)(*2*) (*i*) and (*ii*))		
Taxes (of C Corporation) deemed paid by B Corporation deemed paid by A Corporation ($84/$124 × $2.04)	1.38	
(for formula see § 1.960–2(g)(1)(iii)(C)(*1*))		
Total taxes deemed paid by N Corporation under section 902(a) credit		$119.13
Total foreign income taxes deemed paid by N Corporation under section 901		206.09

(g) *Formulas.* This paragraph contains formulas for determining a domestic corporation's section 902 and 960 credits when amounts distributed through a chain of ownership have been included in whole or in part in the gross income of a domestic corporation under section 951 with respect to first-, second-, third-, or lower-tier corporations.

(1) *Determination of the section 902 credit*—(i) *Section 902(b)(2) credit.* If the second-tier corporation receives a dividend from a third-tier corporation attributable in whole or in part to amounts included in a domestic corporation's gross income under section 951 with respect to the third- or lower-tier corporations, the second-tier corporation's credit for taxes paid by the third-tier corporation under section 902(b)(2) is determined as follows:

(A) If the effective rate of tax on dividends received by the third-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Dividend to second-tier corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to third-tier corporation}}{\text{Earnings and profits of third-tier corporation}} \times \text{Taxes paid by third-tier corporation}$$

(B) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*1*) Credit for tax paid by third-tier corporation on earnings included in domestic corporation's gross income with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividends to second-tier corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}}{\text{Earnings and profits of third-tier corporation included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}} \times \text{Tax paid by third-tier corporation on dividend received by third-tier corporation from earnings included in domestic corporation's gross income with respect to fourth- or lower-tier corporations}$$

(*2*) Credit for tax paid by third-tier corporation on earnings not included in domestic corporation's gross income with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividend to second-tier corporation which is from earnings not included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}}{\text{Earnings and profits of third-tier corporation not included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}} \times \text{Tax paid by third-tier corporation on earnings not included in domestic corporation's gross income with respect to fourth- or lower-tier corporations}$$

(ii) *Section 902(b)(1) credit.* If the first-tier corporation receives a dividend from a second-tier corporation attributable in a whole or in part to amounts included in a domestic corporation's gross income under section 951 with respect to the second- or lower-tier corporations, the first-tier corporation's credit for taxes paid and deemed paid by the second-tier corporation under section 902(b)(1) is determined as follows:

(A) *Taxes paid by the second-tier corporation which are deemed paid by the first-tier corporation—(1)* If the effective rate of tax on dividends received by the second-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Dividend to first-tier corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to second-tier corporation}}{\text{Earnings and profits of second-tier corporation}} \times \text{Taxes paid by second-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the second-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*i*) Credit for tax paid by second-tier corporation on earnings previously taxed with respect to third- or lower-tier corporations—

$$\frac{\text{Portion of dividend to first-tier corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}}{\text{Earnings and profits of second-tier corporation included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on dividend received by second-tier corporation from earnings included in domestic corporation's gross income with respect to third- or lower-tier corporations}$$

(*ii*) Credit for tax paid by second-tier corporation on earnings not previously taxed with respect to third- or lower-tier corporations—

$$\frac{\text{Portion of dividend to first-tier corporation which is from earnings not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}}{\text{Earnings and profits of second-tier corporation not included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on earnings not included in domestic corporation's gross income with respect to third- or lower-tier corporations}$$

(B) *Taxes deemed paid by the second-tier corporation which are deemed paid by the first-tier corporation*—(*1*) If the effective rate of tax dividends received by the third-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Dividend to first-tier corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to second- and third-tier corporations}}{\text{Earnings and profits of second-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income under section 951 with respect to third-tier corporation}} \times \text{Taxes paid by third-tier corporation which are deemed paid by second-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*i*) Credit for tax paid by third-tier corporation on earnings previously taxed with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividend to first-tier corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}}{\text{Earnings and profits of second-tier corporations included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}} \times \text{Tax paid by third-tier corporation on earnings previously taxed with respect to fourth- or lower-tier corporations which is deemed paid by second-tier corporation}$$

(*ii*) Credit for tax paid by third-tier corporation on earnings not previously taxed with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividend to first-tier corporation which is from earnings not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}}{\text{Earnings and profits of second-tier corporation not included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}} \times \text{Tax paid by third-tier corporation on earnings not previously taxed with respect to fourth- or lower-tier corporations which is deemed paid by second-tier corporation}$$

(iii) *Section 902(a) credit.* If the domestic corporation receives a dividend from a first-tier corporation attributable in whole or in part to amounts included in a domestic corporation's gross income under section 951 with respect to the first- or lower-tier corporations, the domestic corporation's credit for taxes paid and deemed paid by the first-tier corporation under section 902(a) is determined as follows:

(A) *Taxes paid by the first-tier corporation which are deemed paid by domestic corporation—(1)* If the effective rate of tax on dividends received by the first-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Dividend to domestic corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation}} \times \text{Taxes paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the first-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*i*) Credit for tax paid by first-tier corporation on earnings previously taxed with respect to second- or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax paid by first-tier corporation on dividends received by first-tier corporation from earnings included in domestic corporation's gross income with respect to second- or lower-tier corporations}$$

(*ii*) Credit for tax paid by first-tier corporation on earnings not previously taxed with respect to second- or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings not included in domestic corporation's gross income under section 951 with respect to first- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax paid by first-tier corporation on earnings not included in domestic corporation's gross income with respect to second- or lower-tier corporations}$$

(B) *Taxes (paid by second-tier corporation) deemed paid by first-tier corporation which are deemed paid by domestic corporation*—(*1*) If the effective rate of tax on dividends received by the second-tier corporation is the same as its tax rate on other earnings and profits—

$$\frac{\text{Dividend to domestic corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to first- and second-tier corporations}}{\text{Earnings and profits of first-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income under section 951 with respect to second-tier corporation}} \times \text{Taxes paid by second-tier corporation which are deemed paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the second-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*i*) Credit for tax paid by second-tier corporation on earnings previously taxed with respect to third-tier or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on earnings previously taxed with respect to third- or lower-tier corporations which is deemed paid by first-tier corporation}$$

(*ii*) Credit for tax paid by second-tier corporation on earnings not previously taxed with respect to third- or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings not included in domestic corporation's gross income under section 951 with respect to first- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on earnings not previously taxed with respect to third- or lower-tier corporations which is deemed paid by first-tier corporation}$$

(C) *Taxes (of third-tier corporation) deemed paid by first-tier corporation which are deemed paid by domestic corporation*—(*1*) If the effective rate of tax on dividends received by the third-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Dividend to domestic corporation less portion of dividend from earnings included in domestic corporation's gross income under section 951 with respect to first- second- and third-tier corporations}}{\text{Earnings and profits of first-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income with respect to second- and third-tier corporations}} \times \text{Taxes deemed paid by second-tier corporation which are deemed paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

(*i*) Credit for tax (of third-tier corporation) deemed paid by second-tier corporation on earnings previously taxed with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}} \times \text{Tax deemed paid by second-tier corporation on earnings previously taxed with respect to fourth- or lower-tier corporations which is deemed paid by first-tier corporation}$$

(*ii*) Credit for tax (of third-tier corporation) deemed paid by second-tier on earnings not previously taxed with respect to fourth- or lower-tier corporations—

$$\frac{\text{Portion of dividend to domestic corporation which is from earnings not included in domestic corporation' s gross income under section 951 with respect to first- or lower-tier corporations}}{\text{Earnings and profits of first-tier corporation not included in domestic corpation' s gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax deemed paid by sec ond-tier corporation on earnings not previously taxed with respect to fourth- or lower-tier corpporations which is deemed paid by first-tier corporation}$$

(2) *Determination of domestic corporation's section 960 credit for amounts included in its gross income with respect to a first-, second-, or third-tier corporation which has received a distribution previously included in the gross income of a domestic corporation under section 951*—(i) *Third-tier credit.* If a domestic corporation is required to include an amount in its gross income under section 951 with respect to a third-tier corporation which has received a distribution from a fourth-tier corporation of amounts included in a domestic corporation's gross income under section 951 with respect to the fourth- or lower-tier corporations, the domestic corporation's credit for taxes paid by the third-tier corporation under section 960(a)(1) is determined as follows:

(A) If the effective rate of tax on dividends received by the third-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to third-tier corporation}}{\text{Earnings and profits of third-tier corporation}} \times \text{Taxes paid by third-tier corporation}$$

(B) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to third-tier corporation}}{\text{Earnings and profits of third-tier corporation not included in domestic corporation's gross income under section 951 with respect to fourth- or lower-tier corporations}} \times \text{Tax paid by third-tier corporation on earnings not included in domestic corporation's gross income with respect to fourth- or lower-tier corporations}$$

(ii) *Second-tier credit.* If a domestic corporation is required to include an amount in its gross income under section 951 with respect to a second-tier corporation which has received a distribution from a third-tier corporation of amounts included in a domestic corporation's gross income under section 951 with respect to the third- or lower-tier corporations, the domestic corporation's credit for taxes paid and deemed paid by the second-tier corporation under section 960(a)(1) is determined as follows:

(A) *Credit for taxes paid by the second-tier corporation which are deemed paid by the domestic corporation.*

(*1*) If the effective rate of tax on dividends received by the second-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to second-tier corporation}}{\text{Earning and profits of second-tier corporation}} \times \text{Taxes paid by second-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the second-tier is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to second-tier corporation}}{\text{Earnings and profits of second-tier corporation not included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on earnings not included in domestic corporation's gross income with respect to third- or lower-tier corporations}$$

(B) *Credit for taxes (of the third-tier corporation) deemed paid by the second-tier corporation under section 902(b)(2),*

(*1*) If the effective rate of tax on dividends received by the third-tier corporation is the same as the effective

rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to second-tier corporation}}{\text{Earnings and profits of second-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income with respect to third-tier corporation}} \times \text{Taxes paid by third-tier corporation which are deemed paid by second-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to second-tier corporation}}{\text{Earnings and profits of second-tier corporation not included in domestic corporation's gross income under section 951 with respect to third- or lower-tier corporation}} \times \text{Tax paid by third-tier corporation on earnings not previously taxed with respect to fourth- or lower-tier corproations which is deemed paid by second-tier corporation}$$

(iii) *First-tier credit.* If a domestic corporation is required to include amounts in its gross income under section 951 with respect to a first-tier corporation which has received a distribution from a second-tier corporation of amounts included in a domestic corporation's gross income under section 951 with respect to the second- or lower-tier corporations, the domestic corporation's credit for taxes paid and deemed paid by the first-tier corporation under section 960(a)(1) shall be determined as follows:

(A) *Credit for taxes paid by the first-tier corporation.*

(*1*) If the effective rate of tax on dividends received by the first-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporations}} \times \text{Taxes paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the first-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax paid by first-tier corporation on earnings not included in domestic corporation's gross income with respect to second- or lower-tier corporations}$$

(B) *Credit for taxes paid by the second-tier corporation deemed paid by the first-tier corporation under section 902(b)(1).*

(*1*) If the effective rate of tax on dividends received by the second-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income under section 951 with respect to second-tier corporations}} \times \text{Tax paid by second-tier corporation which are deemed paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the second-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporations}} \times \text{Tax paid by second-tier corporation on earnings not previously taxed with respect to third- or lower-tier corporations which is deemed paid by first-tier corporation}$$

(C) *Credit for taxes (of the third-tier corporation) deemed paid by the second-tier corporation which are deemed paid by first-tier corporation under section 902(b)(1).*

(*1*) If the effective rate of tax on dividends received by the third-tier corporation is the same as the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation less earnings and profits attributable to amounts included in domestic corporation's gross income with respect to second- and third-tier corporation}} \times \text{Taxes deemed paid by second-tier corporation which are deemed paid by first-tier corporation}$$

(*2*) If the effective rate of tax on dividends received by the third-tier corporation is higher or lower than the effective rate of tax on its other earnings and profits—

$$\frac{\text{Amount included in domestic corporation's gross income under section 951 with respect to first-tier corporation}}{\text{Earnings and profits of first-tier corporation not included in domestic corporation's gross income under section 951 with respect to second- or lower-tier corporation}} \times \text{Tax deemed paid by second-tier corporation on earnings not previously taxed with respect to fourth- or lower-tier corporations which is deemed paid by first-tier corporation}$$

[T.D. 7120, 36 FR 10854, June 4, 1971; 36 FR 11924, June 23, 1971, as amended by T.D. 7334, 39 FR 44212, Dec. 23, 1974; 40 FR 1014, Jan. 6, 1975; 40 FR 2802, Jan. 16, 1975; T.D. 7649, 44 FR 60089, Oct. 18, 1979; T.D. 7843, 47 FR 50476, Nov. 8, 1982; 47 FR 55477, Dec. 10, 1982]

§ 1.960–3 Gross-up of amounts included in income under section 951.

(a) *General rule for including taxes in income.* Any taxes deemed paid by a domestic corporation for the taxable year pursuant to section 960(a)(1) shall, except as provided in paragraph (b) of this section, be included in the gross income of such corporation for such year as a dividend pursuant to section 78 and §1.78–1.

(b) *Certain taxes not included in income.* Any taxes deemed paid by a domestic corporation for the taxable year pursuant to section 902(a) or section 960(a)(1) shall not be included in the gross income of such corporation for such year as a dividend pursuant to section 78 and §1.78–1 to the extent that such taxes are paid or accrued by the first-, second-, or third-tier corporation, as the case may be, on or with respect to an amount which is excluded from the gross income of such foreign corporation under section 959(b) and §1.959–2 as distributions from the earnings and profits of another controlled foreign corporation attributable to an amount which is, or has been, required to be included in the gross income of the domestic corporation under section 951.

(c) *Illustrations.* The application of this section may be illustrated by the following examples:

Example 1. Domestic corporation N owns all the one class of stock of controlled foreign corporation A, which owns all the one class of stock of controlled foreign corporation B. All such corporations use the calendar year as the taxable year. For 1978, B Corporation, after having paid $20 of foreign income taxes, has $80 in earnings and profits, which are attributable to the amount required to be included in N Corporation's gross income for such year under section 951 with respect to B Corporation and all of which are distributed to A Corporation in such year. The dividend so received from B Corporation is excluded from A Corporation's gross income under section 959(b) and