

**CHAPTER 6—CONSOLIDATED RETURNS**

**Statutory Notes and Related Subsidiaries**

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EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title VIII, §844(c), Oct. 22, 2004, 118 Stat. 1600, provided that: "This section [amending this section], and the amendment made by this section, shall apply to taxable years beginning before, on, or after the date of the enactment of this Act [Oct. 22, 2004]."

**Subchapter A—Returns and Payment of Tax**

**DUAL RESIDENT COMPANIES**

Sec.	
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Pub. L. 100-647, title VI, §6126, Nov. 10, 1988, 102 Stat. 3713, provided that:

**§ 1501. Privilege to file consolidated returns**

"(a) GENERAL RULE.—In the case of a transaction which—

An affiliated group of corporations shall, subject to the provisions of this chapter, have the privilege of making a consolidated return with respect to the income tax imposed by chapter 1 for the taxable year in lieu of separate returns. The making of a consolidated return shall be upon the condition that all corporations which at any time during the taxable year have been members of the affiliated group consent to all the consolidated return regulations prescribed under section 1502 prior to the last day prescribed by law for the filing of such return. The making of a consolidated return shall be considered as such consent. In the case of a corporation which is a member of the affiliated group for a fractional part of the year, the consolidated return shall include the income of such corporation for such part of the year as it is a member of the affiliated group.

"(1) involves the transfer after the date of the enactment of this Act [Nov. 10, 1988] by a domestic corporation, with respect to which there is a qualified excess loss account, of its assets and liabilities to a foreign corporation in exchange for all of the stock of such foreign corporation, followed by the complete liquidation of the domestic corporation into the common parent, and

(Aug. 16, 1954, ch. 736, 68A Stat. 367.)

"(2) qualifies, pursuant to Revenue Ruling 87-27, as a reorganization which is described in section 368(a)(1)(F) of the 1986 Code,

**§ 1502. Regulations**

The Secretary shall prescribe such regulations as he may deem necessary in order that the tax liability of any affiliated group of corporations making a consolidated return and of each corporation in the group, both during and after the period of affiliation, may be returned, determined, computed, assessed, collected, and adjusted, in such manner as clearly to reflect the income-tax liability and the various factors necessary for the determination of such liability, and in order to prevent avoidance of such tax liability. In carrying out the preceding sentence, the Secretary may prescribe rules that are different from the provisions of chapter 1 that would apply if such corporations filed separate returns.

then, solely for purposes of applying Treasury Regulation section 1.1502-19 to such qualified excess loss account, such foreign corporation shall be treated as a domestic corporation in determining whether such foreign corporation is a member of the affiliated group of the common parent.

(Aug. 16, 1954, ch. 736, 68A Stat. 367; Pub. L. 94-455, title XIX, §1906(b) (13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 108-357, title VIII, §844(a), Oct. 22, 2004, 118 Stat. 1600.)

"(b) TREATMENT OF INCOME OF NEW FOREIGN CORPORATION.—

**Editorial Notes**

**AMENDMENTS**

2004—Pub. L. 108-357 inserted at end "In carrying out the preceding sentence, the Secretary may prescribe rules that are different from the provisions of chapter 1 that would apply if such corporations filed separate returns."

"(1) IN GENERAL.—In any case to which subsection (a) applies, for purposes of the 1986 Code—

"(A) the source and character of any item of income of the foreign corporation referred to in subsection (a) shall be determined as if such foreign corporation were a domestic corporation,

"(B) the net amount of any such income shall be treated as subpart F income (without regard to section 952(c) of the 1986 Code), and

"(C) the amount in the qualified excess loss account referred to in subsection (a) shall—

"(i) be reduced by the net amount of any such income, and

"(ii) be increased by the amount of any such income distributed directly or indirectly to the common parent described in subsection (a).

"(2) LIMITATION.—Paragraph (1) shall apply to any item of income only to the extent that the net amount of such income does not exceed the amount in the qualified excess loss account after being reduced under paragraph (1)(C) for prior income.

"(3) BASIS ADJUSTMENTS NOT APPLICABLE.—To the extent paragraph (1) applies to any item of income, there shall be no increase in basis under section 961(a) of such Code on account of such income (and there shall be no reduction in basis under section 961(b) of such Code on account of an exclusion attributable to the inclusion of such income).

"(4) RECOGNITION OF GAIN.—For purposes of paragraph (1), if the foreign corporation referred to in subsection (a) transfers any property acquired by such foreign corporation in the transaction referred to in subsection (a) (or transfers any other property the basis of which is determined in whole or in part by reference to the basis of property so acquired) and (but for this paragraph) there is not full recognition of gain on such transfer, the excess (if any) of—

"(A) the fair market value of the property transferred, over

"(B) its adjusted basis, shall be treated as gain from the sale or exchange of such property and shall be recognized notwithstanding any other provision of law. Proper adjustment shall be made to the basis of any such property for gain recognized under the preceding sentence.

1976—Pub. L. 94-455 struck out "or his delegate" after "Secretary".

<sup>1</sup> Section numbers editorially supplied.

“(c) DEFINITIONS.—For purposes of this section—

“(1) COMMON PARENT.—The term ‘common parent’ means the common parent of the affiliated group which included the domestic corporation referred to in subsection (a)(1).

“(2) QUALIFIED EXCESS LOSS ACCOUNT.—The term ‘qualified excess loss account’ means any excess loss account (within the meaning of the consolidated return regulations) to the extent such account is attributable—

“(A) to taxable years beginning before January 1, 1988, and

“(B) to periods during which the domestic corporation was subject to an income tax of a foreign country on its income on a residence basis or without regard to whether such income is from sources in or outside of such foreign country.

The amount of such account shall be determined as of immediately after the transaction referred to in subsection (a) and without, except as provided in subsection (b), diminution for any future adjustment.

“(3) NET AMOUNT.—The net amount of any item of income is the amount of such income reduced by allowable deductions as determined under the rules of section 954(b)(5) of the 1986 Code.

“(4) SECOND SAME COUNTRY CORPORATION MAY BE TREATED AS DOMESTIC CORPORATION IN CERTAIN CASES.—If—

“(A) another foreign corporation acquires from the common parent stock of the foreign corporation referred to in subsection (a) after the transaction referred to in subsection (a),

“(B) both of such foreign corporations are subject to the income tax of the same foreign country on a residence basis, and

“(C) such common parent complies with such reporting requirements as the Secretary of the Treasury or his delegate may prescribe for purposes of this paragraph.

such other foreign corporation shall be treated as a domestic corporation in determining whether the foreign corporation referred to in subsection (a) is a member of the affiliated group referred to in subsection (a) (and the rules of subsection (b) shall apply (i) to any gain of such other foreign corporation on any disposition of such stock, and (ii) to any other income of such other foreign corporation except to the extent it establishes to the satisfaction of the Secretary of the Treasury or his delegate that such income is not attributable to property acquired from the foreign corporation referred to in subsection (a)).”

#### SPECIAL RULE FOR DISPOSITION OF STOCK OF SUBSIDIARY

Pub. L. 99-514, title VI, §647, Oct. 22, 1986, 100 Stat. 2294, provided that: “If for a taxable year of an affiliated group filing a consolidated return ending on or before December 31, 1987, there is a disposition of stock of a subsidiary (within the meaning of Treasury Regulation section 1.1502-19), the amount required to be included in income with respect to such disposition under Treasury Regulation section 1.1502-19(a) shall, notwithstanding such section, be included in income ratably over the 15-year period beginning with the taxable year in which the disposition occurs. The preceding sentence shall apply only if such subsidiary was incorporated on December 24, 1969, and is a participant in a mineral joint venture with a corporation organized under the laws of the foreign country in which the joint venture mineral project is located.”

### § 1503. Computation and payment of tax

#### (a) [General rule]<sup>1</sup>

In any case in which a consolidated return is made or is required to be made, the tax shall be

determined, computed, assessed, collected, and adjusted in accordance with the regulations under section 1502 prescribed before the last day prescribed by law for the filing of such return.

**[(b) Repealed. Pub. L. 94-455, title X, § 1052(c)(5), Oct. 4, 1976, 90 Stat. 1648]**

#### (c) Special rule for application of certain losses against income of insurance companies taxed under section 801

##### (1) In general

If an election under section 1504(c)(2) is in effect for the taxable year and the consolidated taxable income of the members of the group not taxed under section 801 results in a consolidated net operating loss for such taxable year, then under regulations prescribed by the Secretary, the amount of such loss which cannot be absorbed in the applicable carry-back periods against the taxable income of such members not taxed under section 801 shall be taken into account in determining the consolidated taxable income of the affiliated group for such taxable year to the extent of 35 percent of such loss or 35 percent of the taxable income of the members taxed under section 801, whichever is less. The unused portion of such loss shall be available as a carryover, subject to the same limitations (applicable to the sum of the loss for the carryover year and the loss (or losses) carried over to such year), in applicable carryover years.

##### (2) Losses of recent nonlife affiliates

Notwithstanding the provisions of paragraph (1), a net operating loss for a taxable year of a member of the group not taxed under section 801 shall not be taken into account in determining the taxable income of a member taxed under section 801 (either for the taxable year or as a carryover or carryback) if such taxable year precedes the sixth taxable year such members have been members of the same affiliated group (determined without regard to section 1504(b)(2)).

#### (d) Dual consolidated loss

##### (1) In general

The dual consolidated loss for any taxable year of any corporation shall not be allowed to reduce the taxable income of any other member of the affiliated group for the taxable year or any other taxable year.

##### (2) Dual consolidated loss

For purposes of this section—

##### (A) In general

Except as provided in subparagraph (B), the term “dual consolidated loss” means any net operating loss of a domestic corporation which is subject to an income tax of a foreign country on its income without regard to whether such income is from sources in or outside of such foreign country, or is subject to such a tax on a residence basis.

##### (B) Special rule where loss not used under foreign law

To the extent provided in regulations, the term “dual consolidated loss” shall not in-

<sup>1</sup>Subsec. (a) heading editorially supplied.