

1975—Subsec. (a)(3). Pub. L. 94-164 added par. (3).  
 1968—Pub. L. 90-622 designated existing provisions as subsec. (a), added subsec. (a) heading, and added subsec. (b).

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to wagers made after Oct. 22, 2004, see section 419(c) of Pub. L. 108-357, set out as a note under section 872 of this title.

##### EFFECTIVE DATE OF 1989 AMENDMENT

Amendment by Pub. L. 101-239 effective, except as otherwise provided, as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647, to which such amendment relates, see section 7817 of Pub. L. 101-239, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, see section 1212(f) of Pub. L. 99-514, set out as a note under section 863 of this title.

##### EFFECTIVE DATE OF 1975 AMENDMENT

Pub. L. 94-164, §6(b), Dec. 23, 1975, 89 Stat. 976, provided that: "The amendment made by this section [amending this section] shall apply to payments made after November 18, 1974."

##### EFFECTIVE DATE OF 1968 AMENDMENT

Pub. L. 90-622, §1(b), Oct. 22, 1968, 82 Stat. 1311, provided that: "The amendment made by subsection (a) [amending this section] shall apply with respect to taxable years beginning after December 31, 1966."

#### APPLICABILITY OF CERTAIN AMENDMENTS BY PUB. L. 99-514 IN RELATION TO TREATY OBLIGATIONS OF UNITED STATES

For nonapplication of amendment by section 1212(c)(3)-(5) of Pub. L. 99-514 to the extent application of such amendment would be contrary to any treaty obligation of the United States in effect on Oct. 22, 1986, with provision that for such purposes any amendment by title I of Pub. L. 100-647 be treated as if it had been included in the provision of Pub. L. 99-514 to which such amendment relates, see section 1012(aa)(3), (4) of Pub. L. 100-647, set out as a note under section 861 of this title.

### § 884. Branch profits tax

#### (a) Imposition of tax

In addition to the tax imposed by section 882 for any taxable year, there is hereby imposed on any foreign corporation a tax equal to 30 percent of the dividend equivalent amount for the taxable year.

#### (b) Dividend equivalent amount

For purposes of subsection (a), the term "dividend equivalent amount" means the foreign corporation's effectively connected earnings and profits for the taxable year adjusted as provided in this subsection:

##### (1) Reduction for increase in U.S. net equity

If—

(A) the U.S. net equity of the foreign corporation as of the close of the taxable year, exceeds

(B) the U.S. net equity of the foreign corporation as of the close of the preceding taxable year,

the effectively connected earnings and profits for the taxable year shall be reduced (but not below zero) by the amount of such excess.

#### (2) Increase for decrease in net equity

##### (A) In general

If—

(i) the U.S. net equity of the foreign corporation as of the close of the preceding taxable year, exceeds

(ii) the U.S. net equity of the foreign corporation as of the close of the taxable year,

the effectively connected earnings and profits for the taxable year shall be increased by the amount of such excess.

#### (B) Limitation

##### (i) In general

The increase under subparagraph (A) for any taxable year shall not exceed the accumulated effectively connected earnings and profits as of the close of the preceding taxable year.

##### (ii) Accumulated effectively connected earnings and profits

For purposes of clause (i), the term "accumulated effectively connected earnings and profits" means the excess of—

(I) the aggregate effectively connected earnings and profits for preceding taxable years beginning after December 31, 1986, over

(II) the aggregate dividend equivalent amounts determined for such preceding taxable years.

#### (c) U.S. net equity

For purposes of this section—

##### (1) In general

The term "U.S. net equity" means—

(A) U.S. assets, reduced (including below zero) by

(B) U.S. liabilities.

##### (2) U.S. assets and U.S. liabilities

For purposes of paragraph (1)—

##### (A) U.S. assets

The term "U.S. assets" means the money and aggregate adjusted bases of property of the foreign corporation treated as connected with the conduct of a trade or business in the United States under regulations prescribed by the Secretary. For purposes of the preceding sentence, the adjusted basis of any property shall be its adjusted basis for purposes of computing earnings and profits.

##### (B) U.S. liabilities

The term "U.S. liabilities" means the liabilities of the foreign corporation treated as connected with the conduct of a trade or business in the United States under regulations prescribed by the Secretary.

**(C) Regulations to be consistent with allocation of deductions**

The regulations prescribed under subparagraphs (A) and (B) shall be consistent with the allocation of deductions under section 882(c)(1).

**(d) Effectively connected earnings and profits**

For purposes of this section—

**(1) In general**

The term “effectively connected earnings and profits” means earnings and profits (without diminution by reason of any distributions made during the taxable year) which are attributable to income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business within the United States.

**(2) Exception for certain income**

The term “effectively connected earnings and profits” shall not include any earnings and profits attributable to—

(A) income not includible in gross income under paragraph (1) or (2) of section 883(a),

(B) income treated as effectively connected with the conduct of a trade or business within the United States under section 921(d) or 926(b) (as in effect before their repeal by the FSC Repeal and Extraterritorial Income Exclusion Act of 2000),

(C) gain on the disposition of a United States real property interest described in section 897(c)(1)(A)(ii),

(D) income treated as effectively connected with the conduct of a trade or business within the United States under section 953(c)(3)(C), or

(E) income treated as effectively connected with the conduct of a trade or business within the United States under section 882(e).

Property and liabilities of the foreign corporation treated as connected with such income under regulations prescribed by the Secretary shall not be taken into account in determining the U.S. assets or U.S. liabilities of the foreign corporation.

**(e) Coordination with income tax treaties; etc.**

**(1) Limitation on treaty exemption**

No treaty between the United States and a foreign country shall exempt any foreign corporation from the tax imposed by subsection (a) (or reduce the amount thereof) unless—

(A) such treaty is an income tax treaty, and

(B) such foreign corporation is a qualified resident of such foreign country.

**(2) Treaty modifications**

If a foreign corporation is a qualified resident of a foreign country with which the United States has an income tax treaty—

(A) the rate of tax under subsection (a) shall be the rate of tax specified in such treaty—

(i) on branch profits if so specified, or

(ii) if not so specified, on dividends paid by a domestic corporation to a corporation resident in such country which wholly owns such domestic corporation, and

(B) any other limitations under such treaty on the tax imposed by subsection (a) shall apply.

**(3) Coordination with withholding tax**

**(A) In general**

If a foreign corporation is subject to the tax imposed by subsection (a) for any taxable year (determined after the application of any treaty), no tax shall be imposed by section 871(a), 881(a), 1441, or 1442 on any dividends paid by such corporation out of its earnings and profits for such taxable year.

**(B) Limitation on certain treaty benefits**

If—

(i) any dividend described in section 861(a)(2)(B) is received by a foreign corporation, and

(ii) subparagraph (A) does not apply to such dividend,

rules similar to the rules of subparagraphs (A) and (B) of subsection (f)(3) shall apply to such dividend.

**(4) Qualified resident**

For purposes of this subsection—

**(A) In general**

Except as otherwise provided in this paragraph, the term “qualified resident” means, with respect to any foreign country, any foreign corporation which is a resident of such foreign country unless—

(i) 50 percent or more (by value) of the stock of such foreign corporation is owned (within the meaning of section 883(c)(4)) by individuals who are not residents of such foreign country and who are not United States citizens or resident aliens, or

(ii) 50 percent or more of its income is used (directly or indirectly) to meet liabilities to persons who are not residents of such foreign country or citizens or residents of the United States.

**(B) Special rule for publicly traded corporations**

A foreign corporation which is a resident of a foreign country shall be treated as a qualified resident of such foreign country if—

(i) the stock of such corporation is primarily and regularly traded on an established securities market in such foreign country, or

(ii) such corporation is wholly owned (either directly or indirectly) by another foreign corporation which is organized in such foreign country and the stock of which is so traded.

**(C) Corporations owned by publicly traded domestic corporations**

A foreign corporation which is a resident of a foreign country shall be treated as a qualified resident of such foreign country if—

(i) such corporation is wholly owned (directly or indirectly) by a domestic corporation, and

(ii) the stock of such domestic corporation is primarily and regularly traded on

an established securities market in the United States.

**(D) Secretarial authority**

The Secretary may, in his sole discretion, treat a foreign corporation as being a qualified resident of a foreign country if such corporation establishes to the satisfaction of the Secretary that such corporation meets such requirements as the Secretary may establish to ensure that individuals who are not residents of such foreign country do not use the treaty between such foreign country and the United States in a manner inconsistent with the purposes of this subsection.

**(5) Exception for international organizations**

This section shall not apply to an international organization (as defined in section 7701(a)(18)).

**(f) Treatment of interest allocable to effectively connected income**

**(1) In general**

In the case of a foreign corporation engaged in a trade or business in the United States (or having gross income treated as effectively connected with the conduct of a trade or business in the United States), for purposes of this subtitle—

(A) any interest paid by such trade or business in the United States shall be treated as if it were paid by a domestic corporation, and

(B) to the extent that the allocable interest exceeds the interest described in subparagraph (A), such foreign corporation shall be liable for tax under section 881(a) in the same manner as if such excess were interest paid to such foreign corporation by a wholly owned domestic corporation on the last day of such foreign corporation's taxable year.

To the extent provided in regulations, subparagraph (A) shall not apply to interest in excess of the amounts reasonably expected to be allocable interest.

**(2) Allocable interest**

For purposes of this subsection, the term "allocable interest" means any interest which is allocable to income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.

**(3) Coordination with treaties**

**(A) Payor must be qualified resident**

In the case of any interest described in paragraph (1) which is paid or accrued by a foreign corporation, no benefit under any treaty between the United States and the foreign country of which such corporation is a resident shall apply unless—

- (i) such treaty is an income tax treaty, and
- (ii) such foreign corporation is a qualified resident of such foreign country.

**(B) Recipient must be qualified resident**

In the case of any interest described in paragraph (1) which is received or accrued by

any corporation, no benefit under any treaty between the United States and the foreign country of which such corporation is a resident shall apply unless—

- (i) such treaty is an income tax treaty, and
- (ii) such foreign corporation is a qualified resident of such foreign country.

**(g) Regulations**

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations providing for appropriate adjustments in the determination of the dividend equivalent amount in connection with the distribution to shareholders or transfer to a controlled corporation of the taxpayer's U.S. assets and other adjustments in such determination as are necessary or appropriate to carry out the purposes of this section.

(Added Pub. L. 99-514, title XII, §1241(a), Oct. 22, 1986, 100 Stat. 2576; amended Pub. L. 100-647, title I, §1012(q)(1)(A), (2)-(6), (14), title VI, §6133(b), Nov. 10, 1988, 102 Stat. 3522-3525, 3721; Pub. L. 104-188, title I, §1704(f)(3)(A), Aug. 20, 1996, 110 Stat. 1879; Pub. L. 110-172, §11(g)(8), Dec. 29, 2007, 121 Stat. 2490.)

**Editorial Notes**

REFERENCES IN TEXT

The FSC Repeal and Extraterritorial Income Exclusion Act of 2000, referred to in subsec. (d)(2)(B), is Pub. L. 106-519, Nov. 15, 2000, 114 Stat. 2423. For complete classification of this Act to the Code, see Short Title of 2000 Amendments note set out under section 1 of this title and Tables.

PRIOR PROVISIONS

A prior section 884 was renumbered section 885 of this title.

AMENDMENTS

2007—Subsec. (d)(2)(B). Pub. L. 110-172 inserted "(as in effect before their repeal by the FSC Repeal and Extraterritorial Income Exclusion Act of 2000)" before comma at end.

1996—Subsec. (f)(1). Pub. L. 104-188, §1704(f)(3)(A)(ii), substituted "reasonably expected to be allocable interest" for "reasonably expected to be deductible under section 882 in computing the effectively connected taxable income of such foreign corporation" in closing provisions.

Subsec. (f)(1)(B). Pub. L. 104-188, §1704(f)(3)(A)(i), substituted "to the extent that the allocable interest exceeds the interest described in subparagraph (A)" for "to the extent the amount of interest allowable as a deduction under section 882 in computing the effectively connected taxable income of such foreign corporation exceeds the interest described in subparagraph (A)".

Subsec. (f)(2). Pub. L. 104-188, §1704(f)(3)(A)(iii), amended par. (2) generally. Prior to amendment, par. (2) read as follows: "EFFECTIVELY CONNECTED TAXABLE INCOME.—For purposes of this subsection, the term 'effectively connected taxable income' means taxable income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business within the United States."

1988—Subsec. (b)(2)(B). Pub. L. 100-647, §1012(q)(1)(A), amended subpar. (B) generally. Prior to amendment, subpar. (B) read as follows: "The increase under subparagraph (A) for any taxable year shall not exceed the aggregate reductions under paragraph (1) for prior taxable years to the extent not previously taken into account under subparagraph (A)."

Subsec. (d)(2)(E). Pub. L. 100-647, §6133(b), added subpar. (E).

Subsec. (e)(1). Pub. L. 100-647, §1012(q)(2)(A), amended par. (1) generally. Prior to amendment, par. (1) read as follows: "No income tax treaty between the United States and a foreign country shall exempt any foreign corporation from the tax imposed by subsection (a) (or reduce the amount thereof) unless—

"(A) such foreign corporation is a qualified resident of such foreign country, or

"(B) such foreign corporation is not a qualified resident of such foreign country but such income tax treaty permits a withholding tax on dividends described in section 861(a)(2)(B) which are paid by such foreign corporation."

Subsec. (e)(3). Pub. L. 100-647, §1012(q)(2)(B), substituted "withholding tax" for "2nd tier withholding tax" in heading and amended text generally. Prior to amendment, text read as follows:

"(A) IN GENERAL.—If a foreign corporation is not exempt for any taxable year from the tax imposed by subsection (a) by reason of a treaty, no tax shall be imposed by section 871(a), 881(a), 1441, or 1442 on any dividends paid by such corporation during the taxable year.

"(B) LIMITATION ON CERTAIN TREATY BENEFITS.—No foreign corporation which is not a qualified resident of a foreign country shall be entitled to claim benefits under any income tax treaty between the United States and such foreign country with respect to dividends—

"(i) which are paid by such foreign corporation and with respect to which such foreign corporation is otherwise required to deduct and withhold tax under section 1441 or 1442, or

"(ii) which are received by such foreign corporation and are described in section 861(a)(2)(B)."

Subsec. (e)(4)(A)(i), (ii). Pub. L. 100-647, §1012(q)(5), substituted "50 percent or more" for "more than 50 percent" in cl. (i) and "citizens or residents of the United States" for "the United States" in cl. (ii).

Subsec. (e)(4)(C), (D). Pub. L. 100-647, §1012(q)(4), added subpar. (C) and redesignated former subpar. (C) as (D).

Subsec. (e)(5). Pub. L. 100-647, §1012(q)(6), added par. (5).

Subsec. (f)(1). Pub. L. 100-647, §1012(f)(3)(A), (14), substituted "this subtitle" for "sections 871, 881, 1441, and 1442" and inserted "(or having gross income treated as effectively connected with the conduct of a trade or business in the United States)" after "United States".

Pub. L. 100-647, §1012(q)(2)(C)(i), (3)(B), inserted sentence at end and struck out former last sentence which read as follows: "Rules similar to the rules of subsection (e)(3)(B) shall apply to interest described in the preceding sentence."

Subsec. (f)(3). Pub. L. 100-647, §1012(q)(2)(C)(ii), added par. (3).

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 1996 AMENDMENT

Section 1704(f)(3)(B) of Pub. L. 104-188 provided that: "The amendments made by subparagraph (A) [amending this section] shall take effect as if included in the amendments made by section 1241(a) of the Tax Reform Act of 1986 [Pub. L. 99-514]."

##### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by section 1012(q)(1)(A), (2)-(6), (14) of Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

Amendment by section 6133(b) of Pub. L. 100-647 applicable to taxable years beginning after Dec. 31, 1988, see section 6133(c) of Pub. L. 100-647, set out as a note under section 882 of this title.

##### EFFECTIVE DATE

Section 1241(e) of Pub. L. 99-514 provided that: "The amendments made by this section [enacting section 884

of this title, renumbering former section 884 as section 885 of this title, and amending sections 861 and 906 of this title] shall apply to taxable years beginning after December 31, 1986."

#### DETERMINATION OF EARNINGS AND PROFITS OF FOREIGN CORPORATIONS

Section 1012(q)(1)(B) of Pub. L. 100-647, as amended by Pub. L. 101-239, title VII, §781(i)(5), Dec. 19, 1989, 103 Stat. 2410, provided that: "For purposes of applying section 884 of the 1986 Code, the earnings and profits of any corporation shall be determined without regard to any increase in earnings and profits under sections 1023(e)(3)(C) [section 1023(e)(3)(C) of Pub. L. 99-514, set out as an Effective Date note under section 846 of this title] and 1021(c)(2)(C) of the Reform Act [Pub. L. 99-514, set out as an Effective Date of 1986 Amendment note under section 832 of this title] or arising from section 832(b)(4)(C) of the 1986 Code."

#### APPLICABILITY OF CERTAIN AMENDMENTS BY PUB. L. 99-514 IN RELATION TO TREATY OBLIGATIONS OF UNITED STATES

For nonapplication of amendment by section 1241(a) of Pub. L. 99-514 (enacting this section) to the extent application of such amendment would be contrary to any treaty obligation of the United States in effect on Oct. 22, 1986, with provision that for such purposes any amendment by title I of Pub. L. 100-647 be treated as if it had been included in the provision of Pub. L. 99-514 to which such amendment relates, see section 1012(aa)(3), (4) of Pub. L. 100-647, set out as a note under section 861 of this title.

#### § 885. Cross references

(1) For special provisions relating to foreign corporations carrying on an insurance business within the United States, see section 842.

(2) For rules applicable in determining whether any foreign corporation is engaged in trade or business within the United States, see section 864(b).

(3) For adjustment of tax in case of corporations of certain foreign countries, see section 896.

(4) For allowance of credit against the tax in case of a foreign corporation having income effectively connected with the conduct of a trade or business within the United States, see section 906.

(5) For withholding at source of tax on income of foreign corporations, see section 1442.

(Aug. 16, 1954, ch. 736, 68A Stat. 283, §884; Pub. L. 89-809, title I, §104(m)(1), Nov. 13, 1966, 80 Stat. 1563; Pub. L. 91-172, title I, §101(j)(21), Dec. 30, 1969, 83 Stat. 528; renumbered §885, Pub. L. 99-514, title XII, §1241(a), Oct. 22, 1986, 100 Stat. 2576.)

#### Editorial Notes

##### AMENDMENTS

1986—Pub. L. 99-514 renumbered section 884 of this title as this section.

1969—Pub. L. 91-172 redesignated pars. (2) to (6) as (1) to (5), respectively. Former par. (1), referring to section 512(a), was struck out.

1966—Par. (1). Pub. L. 89-809 redesignated par. (4) as (1). Former par. (1) redesignated (6).

Par. (2). Pub. L. 89-809 redesignated par. (3) as (2) and substituted "foreign corporations carrying on an insurance business within the United States, see section 842" for "foreign insurance companies, see subchapter L (sec. 801 and following)". Former par. (2) redesignated (3).

Par. (3). Pub. L. 89-809 redesignated former par. (2) as (3) and, in par. (3) as so redesignated, substituted "section 864(b)" for "section 871(c)". Former par. (3) redesignated (2).

Pars. (4), (5). Pub. L. 89-809 added pars. (4) and (5). Former par. (4) redesignated (1).