

[amending this section] applies to taxable years beginning after December 31, 1973. The amendment shall, at the election of the taxpayer made within 90 days after the date of enactment of this Act [Oct. 26, 1974], also apply to any taxable year beginning after December 31, 1971, and before January 1, 1974.”

§ 994. Inter-company pricing rules

(a) In general

In the case of a sale of export property to a DISC by a person described in section 482, the taxable income of such DISC and such person shall be based upon a transfer price which would allow such DISC to derive taxable income attributable to such sale (regardless of the sales price actually charged) in an amount which does not exceed the greatest of—

- (1) 4 percent of the qualified export receipts on the sale of such property by the DISC plus 10 percent of the export promotion expenses of such DISC attributable to such receipts,
- (2) 50 percent of the combined taxable income of such DISC and such person which is attributable to the qualified export receipts on such property derived as the result of a sale by the DISC plus 10 percent of the export promotion expenses of such DISC attributable to such receipts, or
- (3) taxable income based upon the sale price actually charged (but subject to the rules provided in section 482).

(b) Rules for commissions, rentals, and marginal costing

The Secretary shall prescribe regulations setting forth—

- (1) rules which are consistent with the rules set forth in subsection (a) for the application of this section in the case of commissions, rentals, and other income, and
- (2) rules for the allocation of expenditures in computing combined taxable income under subsection (a)(2) in those cases where a DISC is seeking to establish or maintain a market for export property.

(c) Export promotion expenses

For purposes of this section, the term “export promotion expenses” means those expenses incurred to advance the distribution or sale of export property for use, consumption, or distribution outside of the United States, but does not include income taxes. Such expenses shall also include freight expenses to the extent of 50 percent of the cost of shipping export property aboard airplanes owned and operated by United States persons or ships documented under the laws of the United States in those cases where law or regulations does not require that such property be shipped aboard such airplanes or ships.

(Added Pub. L. 92-178, title V, § 501, Dec. 10, 1971, 85 Stat. 543; amended Pub. L. 94-455, title XIX, § 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834.)

Editorial Notes

AMENDMENTS

1976—Subsec. (b). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

SUBPART B—TREATMENT OF DISTRIBUTIONS TO SHAREHOLDERS

Sec.	
995.	Taxation of DISC income to shareholders.
996.	Rules for allocation in the case of distributions and losses.
997.	Special subchapter C rules.

§ 995. Taxation of DISC income to shareholders

(a) General rule

A shareholder of a DISC or former DISC shall be subject to taxation on the earnings and profits of a DISC as provided in this chapter, but subject to the modifications of this subpart.

(b) Deemed distributions

(1) Distributions in qualified years

A shareholder of a DISC shall be treated as having received a distribution taxable as a dividend with respect to his stock in an amount which is equal to his pro rata share of the sum (or, if smaller, the earnings and profits for the taxable year) of—

(A) the gross interest derived during the taxable year from producer's loans,

(B) the gain recognized by the DISC during the taxable year on the sale or exchange of property, other than property which in the hands of the DISC is a qualified export asset, previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain on the previous transfer was not recognized,

(C) the gain (other than the gain described in subparagraph (B)) recognized by the DISC during the taxable year on the sale or exchange of property (other than property which in the hands of the DISC is stock in trade or other property described in section 1221(a)(1)) previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain on the previous transfer was not recognized and would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the DISC,

(D) 50 percent of the taxable income of the DISC for the taxable year attributable to military property,

(E) the taxable income of the DISC attributable to qualified export receipts of the DISC for the taxable year which exceed \$10,000,000,

(F) the sum of—

(i) in the case of a shareholder which is a C corporation, one-seventeenth of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E),

(ii) an amount equal to $\frac{16}{17}$ of the excess referred to in clause (i), multiplied by the international boycott factor determined under section 999, and

(iii) any illegal bribe, kickback, or other payment (within the meaning of section

162(c)) paid by or on behalf of the DISC directly or indirectly to an official, employee, or agent in fact of a government, and

(G) the amount of foreign investment attributable to producer's loans (as defined in subsection (d)) of a DISC for the taxable year.

Distributions described in this paragraph shall be deemed to be received on the last day of the taxable year of the DISC in which the income was derived. In the case of a distribution described in subparagraph (G), earnings and profits for the taxable year shall include accumulated earnings and profits.

(2) Distributions upon disqualification

(A) A shareholder of a corporation which revoked its election to be treated as a DISC or failed to satisfy the conditions of section 992(a)(1) for a taxable year shall be deemed to have received (at the time specified in subparagraph (B)) a distribution taxable as a dividend equal to his pro rata share of the DISC income of such corporation accumulated during the immediately preceding consecutive taxable years for which the corporation was a DISC.

(B) Distributions described in subparagraph (A) shall be deemed to be received in equal installments on the last day of each of the 10 taxable years of the corporation following the year of the termination or disqualification described in subparagraph (A) (but in no case over more than twice the number of immediately preceding consecutive taxable years during which the corporation was a DISC).

(3) Taxable income attributable to military property

(A) In general

For purposes of paragraph (1)(D), taxable income of a DISC for the taxable year attributable to military property shall be determined by only taking into account—

- (i) the gross income of the DISC for the taxable year which is attributable to military property, and
- (ii) the deductions which are properly apportioned or allocated to such income.

(B) Military property

For purposes of subparagraph (A), the term "military property" means any property which is an arm, ammunition, or implement of war designated in the munitions list published pursuant to section 38 of the Arms Export Control Act (22 U.S.C. 2778).

(4) Aggregation of qualified export receipts

(A) In general

For purposes of applying paragraph (1)(E), all DISC's which are members of the same controlled group shall be treated as a single corporation.

(B) Allocation

The dollar amount under paragraph (1)(E) shall be allocated among the DISC's which are members of the same controlled group in a manner provided in regulations prescribed by the Secretary.

(c) Gain on disposition of stock in a DISC

(1) In general

If—

(A) a shareholder disposes of stock in a DISC or former DISC any gain recognized on such disposition shall be included in gross income as a dividend to the extent provided in paragraph (2), or

(B) stock of a DISC or former DISC is disposed of in a transaction in which the separate corporate existence of the DISC or former DISC is terminated other than by a mere change in place of organization, however effected, any gain realized on the disposition of such stock in the transaction shall be recognized notwithstanding any other provision of this title to the extent provided in paragraph (2) and to the extent so recognized shall be included in gross income as a dividend.

(2) Amount included

The amounts described in paragraph (1) shall be included in gross income as a dividend to the extent of the accumulated DISC income of the DISC or former DISC which is attributable to the stock disposed of and which was accumulated in taxable years of such corporation during the period or periods the stock disposed of was held by the shareholder which disposed of such stock.

(d) Foreign investment attributable to DISC earnings

For the purposes of this part—

(1) In general

The amount of foreign investment attributable to producer's loans of a DISC for a taxable year shall be the smallest of—

- (A) the net increase in foreign assets by members of the controlled group (as defined in section 993(a)(3)) which includes the DISC,
- (B) the actual foreign investment by domestic members of such group, or
- (C) the amount of outstanding producer's loans by such DISC to members of such controlled group.

(2) Net increase in foreign assets

The term "net increase in foreign assets" of a controlled group means the excess of—

- (A) the amount incurred by such group to acquire assets (described in section 1231(b)) located outside the United States over,
- (B) the sum of—
 - (i) the depreciation with respect to assets of such group located outside the United States;
 - (ii) the outstanding amount of stock or debt obligations of such group issued after December 31, 1971, to persons other than the United States persons or any member of such group;
 - (iii) one-half the earnings and profits of foreign members of such group and foreign branches of domestic members of such group;
 - (iv) one-half the royalties and fees paid by foreign members of such group to domestic members of such group; and
 - (v) the uncommitted transitional funds of the group as determined under paragraph (4).

For purposes of this paragraph, assets which are qualified export assets of a DISC (or would be qualified export assets if owned by a DISC) shall not be taken into account. Amounts described in this paragraph (other than in subparagraphs (B)(ii) and (v)) shall be taken into account only to the extent they are attributable to taxable years beginning after December 31, 1971.

(3) Actual foreign investment

The term “actual foreign investment” by domestic members of a controlled group means the sum of—

(A) contributions to capital of foreign members of the group by domestic members of the group after December 31, 1971,

(B) the outstanding amount of stock or debt obligations of foreign members of such group (other than normal trade indebtedness) issued after December 31, 1971, to domestic members of such group,

(C) amounts transferred by domestic members of the group after December 31, 1971, to foreign branches of such members, and

(D) one-half the earnings and profits of foreign members of such group and foreign branches of domestic members of such group for taxable years beginning after December 31, 1971.

As used in this subsection, the term “domestic member” means a domestic corporation which is a member of a controlled group (as defined in section 993(a)(3)), and the term “foreign member” means a foreign corporation which is a member of such a controlled group.

(4) Uncommitted transitional funds

The uncommitted transitional funds of the group shall be an amount equal to the sum of—

(A) the excess of—

(i) the amount of stock or debt obligations of domestic members of such group outstanding on December 31, 1971, and issued on or after January 1, 1968, to persons other than United States persons or any members of such group, but only to the extent the taxpayer establishes that such amount constitutes a long-term borrowing for purposes of the foreign direct investment program, over

(ii) the net amount of actual foreign investment by domestic members of such group during the period that such stock or debt obligations have been outstanding; and

(B) the amount of liquid assets to the extent not included in subparagraph (A) held by foreign members of such group and foreign branches of domestic members of such group on October 31, 1971, in excess of their reasonable working capital needs on such date.

For purposes of this paragraph, the term “liquid assets” means money, bank deposits (not including time deposits), and indebtedness of 2 years or less to maturity on the date of acquisition; and the actual foreign investment shall be determined under paragraph (3) without re-

gard to the date in subparagraph (A) of such paragraph and without regard to subparagraph (D) of such paragraph.

(5) Special rule

Under regulations prescribed by the Secretary the determinations under this subsection shall be made on a cumulative basis with proper adjustments for amounts previously taken into account.

(e) Certain transfers of DISC assets

If—

(1) a corporation owns, directly or indirectly, all of the stock of a subsidiary and a DISC,

(2) the subsidiary has been engaged in the active conduct of a trade or business (within the meaning of section 355(b)) throughout the 5-year period ending on the date of the transfer and continues to be so engaged thereafter, and

(3) during the taxable year of the subsidiary in which its stock is transferred and its preceding taxable year, such trade or business gives rise to qualified export receipts of the subsidiary and the DISC,

then, under such terms and conditions as the Secretary by regulations shall prescribe, transfers of assets, stock, or both, will be deemed to be a reorganization within the meaning of section 368, a transaction to which section 355 applies, an exchange of stock to which section 351 applies, or a combination thereof. The preceding sentence shall apply only to the extent that the transfer or transfers involved are for the purpose of preventing the separation of the ownership of the stock in the DISC from the ownership of the trade or business which (during the base period) produced the export gross receipts of the DISC.

(f) Interest on DISC-related deferred tax liability

(1) In general

A shareholder of a DISC shall pay for each taxable year interest in an amount equal to the product of—

(A) the shareholder’s DISC-related deferred tax liability for such year, and

(B) the base period T-bill rate.

(2) Shareholder’s DISC-related deferred tax liability

For purposes of this subsection—

(A) In general

The term “shareholder’s DISC-related deferred tax liability” means, with respect to any taxable year of a shareholder of a DISC, the excess of—

(i) the amount which would be the tax liability of the shareholder for the taxable year if the deferred DISC income of such shareholder for such taxable year were included in gross income as ordinary income, over

(ii) the actual amount of the tax liability of such shareholder for such taxable year.

Determinations under the preceding sentence shall be made without regard to carrybacks to such taxable year.

(B) Adjustments for losses, credits, and other items

The Secretary shall prescribe regulations which provide such adjustments—

- (i) to the accounts of the DISC, and
- (ii) to the amount of any carryover or carryback of the shareholder,

as may be necessary or appropriate in the case of net operating losses, credits, and carryovers, and carrybacks of losses and credits.

(C) Tax liability

The term “tax liability” means the amount of the tax imposed by this chapter for the taxable year reduced by credits allowable against such tax (other than credits allowable under sections 31, 32, and 34).

(3) Deferred DISC income

For purposes of this subsection—

(A) In general

The term “deferred DISC income” means, with respect to any taxable year of a shareholder, the excess of—

- (i) the shareholder’s pro rata share of accumulated DISC income (for periods after 1984) of the DISC as of the close of the computation year, over
- (ii) the amount of the distributions-in-excess-of-income for the taxable year of the DISC following the computation year.

(B) Computation year

For purposes of applying subparagraph (A) with respect to any taxable year of a shareholder, the computation year is the taxable year of the DISC which ends with (or within) the taxable year of the shareholder which precedes the taxable year of the shareholder for which the amount of deferred DISC income is being determined.

(C) Distributions-in-excess-of-income

For purposes of subparagraph (A), the term “distributions-in-excess-of-income” means, with respect to any taxable year of a DISC, the excess (if any) of—

- (i) the amount of actual distributions to the shareholder out of accumulated DISC income, over
- (ii) the shareholder’s pro rata share of the DISC income for such taxable year.

(4) Base period T-bill rate

For purposes of this subsection, the term “base period T-bill rate” means the annual rate of interest determined by the Secretary to be equivalent to the average of the 1-year constant maturity Treasury yields, as published by the Board of Governors of the Federal Reserve System, for the 1-year period ending on September 30 of the calendar year ending with (or of the most recent calendar year ending before) the close of the taxable year of the shareholder.

(5) Short years

The Secretary shall prescribe such regulations as may be necessary for the application of this subsection to short years of the DISC, the shareholder, or both.

(6) Payment and assessment and collection of interest

The interest accrued during any taxable year which a shareholder is required to pay under paragraph (1) shall be treated, for purposes of this title, as interest payable under section 6601 and shall be paid by the shareholder at the time the tax imposed by this chapter for such taxable year is required to be paid.

(7) DISC includes former DISC

For purposes of this subsection, the term “DISC” includes a former DISC.

(g) Treatment of tax-exempt shareholders

If any organization described in subsection (a)(2) or (b)(2) of section 511 (or any other person otherwise subject to tax under section 511) is a shareholder in a DISC—

- (1) any amount deemed distributed to such shareholder under subsection (b),
- (2) any actual distribution to such shareholder which under section 996 is treated as out of accumulated DISC income, and
- (3) any gain which is treated as a dividend under subsection (c),

shall be treated as derived from the conduct of an unrelated trade or business (and the modifications of section 512(b) shall not apply). The rules of the preceding sentence shall apply also for purposes of determining any such shareholder’s DISC-related deferred tax liability under subsection (f).

(Added Pub. L. 92-178, title V, § 501, Dec. 10, 1971, 85 Stat. 544; amended Pub. L. 94-455, title X, §§ 1063, 1065(a)(2), title XI, § 1101(a), (d)(1), title XIX, §§ 1901(b)(3)(K), 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1650, 1654, 1655, 1658, 1793, 1834; Pub. L. 95-600, title VII, §§ 701(u)(12)(B), 703(i)(1), (2), Nov. 6, 1978, 92 Stat. 2918, 2940; Pub. L. 98-369, div. A, title I, § 68(d), title VIII, § 802(a), (b), July 18, 1984, 98 Stat. 588, 997, 999; Pub. L. 99-514, title XVIII, § 1876(b)(2), (g), (p)(1), Oct. 22, 1986, 100 Stat. 2898, 2900, 2902; Pub. L. 100-647, title I, §§ 1006(e)(15), 1012(bb)(6)(A), Nov. 10, 1988, 102 Stat. 3402, 3535; Pub. L. 101-239, title VII, § 7811(i)(12), Dec. 19, 1989, 103 Stat. 2411; Pub. L. 106-170, title V, § 532(c)(2)(R), Dec. 17, 1999, 113 Stat. 1931; Pub. L. 106-554, § 1(a)(7) [title III, §§ 307(c), 319(12)], Dec. 21, 2000, 114 Stat. 2763, 2763A-636, 2763A-646; Pub. L. 107-147, title IV, § 417(15), Mar. 9, 2002, 116 Stat. 56.)

Editorial Notes**AMENDMENTS**

2002—Subsec. (b)(3)(B). Pub. L. 107-147 substituted “Arms Export Control Act” for “International Security Assistance and Arms Export Control Act of 1976”.

2000—Subsec. (b)(3)(B). Pub. L. 106-554, § 1(a)(7) [title III, § 319(12)], substituted “section 38 of the International Security Assistance and Arms Export Control Act of 1976 (22 U.S.C. 2778)” for “the Military Security Act of 1954 (22 U.S.C. 1934)”.

Subsec. (f)(4). Pub. L. 106-554, § 1(a)(7) [title III, § 307(c)], substituted “the average of the 1-year constant maturity Treasury yields, as published by the Board of Governors of the Federal Reserve System, for the 1-year period” for “the average investment yield of United States Treasury bills with maturities of 52 weeks which were auctioned during the 1-year period”.

1999—Subsec. (b)(1)(C). Pub. L. 106-170 substituted “1221(a)(1)” for “1221(1)”.

1989—Subsec. (g). Pub. L. 101-239 substituted “section 511 (or any other person otherwise subject to tax under section 511)” for “section 511” in introductory provisions.

1988—Subsec. (c)(1). Pub. L. 100-647, §1006(e)(15), struck out subpar. (C) and last sentence which read as follows:

“(C) a shareholder distributes, sells, or exchanges stock in a DISC or former DISC in a transaction to which section 311, 336, or 337 applies, then an amount equal to the excess of the fair market value of such stock over its adjusted basis in the hands of the shareholder shall, notwithstanding any provision of this title, be included in gross income of the shareholder as a dividend to the extent provided in paragraph (2).

Subparagraph (C) shall not apply if the person receiving the stock in the disposition has a holding period for the stock which includes the period for which the stock was held by the shareholder disposing of such stock.”

Subsec. (g). Pub. L. 100-647, §1012(bb)(6)(A), added subsec. (g).

1986—Subsec. (b)(1)(F)(i). Pub. L. 99-514, §1876(b)(2)(A), inserted “in the case of a shareholder which is a C corporation,”.

Subsec. (b)(1)(F)(ii). Pub. L. 99-514, §1876(b)(2)(B), substituted “ $\frac{16}{17}$ of the excess referred to in clause (i),” for “the amount determined under clause (i)”.

Subsec. (f)(4) to (6). Pub. L. 99-514, §1876(p)(1), redesignated as pars. (4), (5), and (6), respectively, former par. (3) relating to base period T-bill rate, (4) relating to short years, and (5) relating to payment and assessment and collection of interest.

Subsec. (f)(7). Pub. L. 99-514, §1876(g), added par. (7).

1984—Subsec. (b)(1)(E). Pub. L. 98-369, §802(b)(1), substituted “of the DISC attributable to qualified export receipts of the DISC for the taxable year which exceed \$10,000,000” for “for the taxable year attributable to base period export gross receipts (as defined in subsection (e))”.

Subsec. (b)(1)(F)(i). Pub. L. 98-369, §68(d), substituted “one-seventeenth” for “one-half”.

Subsec. (b)(4). Pub. L. 98-369, §802(b)(2), added par. (4).

Subsec. (e). Pub. L. 98-369, §802(a)(1), (2), redesignated subsec. (g) as (e). Former subsec. (e), which related to definitions and special rules relating to computation of taxable income attributable to base period export gross receipts, was struck out.

Subsec. (f). Pub. L. 98-369, §802(a)(1), (3), added subsec. (f). Former subsec. (f), which related to small DISCs, was struck out.

Subsec. (g). Pub. L. 98-369, §802(a)(2), redesignated subsec. (g) as (e).

1978—Subsec. (b)(1). Pub. L. 95-600, §703(i)(1), (2), substituted in subpar. (G) “subsection (d)” for “subsection (D)”, and in provisions following subpar. (G) “income” for “gross income (taxable income in the case of subparagraph (D))” and “subparagraph (G)” for “subparagraph (E)”.

Subsec. (c)(1). Pub. L. 95-600, §701(u)(12)(B), inserted provision relating to application of subpar. (C).

1976—Subsec. (b)(1)(C). Pub. L. 94-455, §1901(b)(3)(K), substituted “ordinary income” for “gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231” after “treated as”.

Subsec. (b)(1)(D), (E). Pub. L. 94-455, §1101(a)(1), added subpars. (D) and (E) and redesignated former subpars. (D) and (E) as (F) and (G), respectively.

Subsec. (b)(1)(F). Pub. L. 94-455, §§1063(a), 1065(a)(2), 1101(a)(1), redesignated former subpar. (D) as (F), made existing provision cl. (i), added cls. (ii) and (iii), and substituted “(C), (D), and (E)” for “(C)” after “(B), and”.

Subsec. (b)(1)(G). Pub. L. 94-455, §1101(a)(1), redesignated former subpar. (E) as (G).

Subsec. (b)(2)(B). Pub. L. 94-455, §1101(a)(2), substituted “more than twice the number” for “more than the number” after “no case over”.

Subsec. (b)(3). Pub. L. 94-455, §1101(a)(3), added par. (3).

Subsec. (c). Pub. L. 94-455, §1101(d)(1), redesignated existing provisions as pars. (1) and (2) and, as redesignated, added subpar. (1)(C).

Subsec. (d)(5). Pub. L. 94-455, §1906(b)(13)(A), struck out “or his delegate” after “Secretary”.

Subsecs. (e) to (g). Pub. L. 94-455, §1101(a)(4), added subsecs. (e) to (g).

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF 1999 AMENDMENT

Amendment by Pub. L. 106-170 applicable to any instrument held, acquired, or entered into, any transaction entered into, and supplies held or acquired on or after Dec. 17, 1999, see section 532(d) of Pub. L. 106-170, set out as a note under section 170 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

Pub. L. 100-647, title X, §1012(bb)(6)(B), Nov. 10, 1988, 102 Stat. 3536, provided that: “The amendment made by subparagraph (A) [amending this section] shall apply to taxable years beginning after December 31, 1987.”

Amendment by section 1006(e)(15) 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.

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by section 68(d) of Pub. L. 98-369 applicable to taxable years beginning after Dec. 31, 1984, see section 68(e)(1) of Pub. L. 98-369, set out as a note under section 291 of this title.

Amendment by section 802(a), (b) of Pub. L. 98-369 applicable to transactions after Dec. 31, 1984, in taxable years ending after such date, see section 805(a)(1) of Pub. L. 98-369, as amended, set out as a note under section 245 of this title.

EFFECTIVE DATE OF 1978 AMENDMENT

Pub. L. 95-600, title VII, §701(u)(12)(C), Nov. 6, 1978, 92 Stat. 2918, provided that: “The amendment made by subparagraph (B) [amending this section] shall apply to dispositions made after December 31, 1976, in taxable years ending after such date.”

Amendment by section 703(i)(1), (2) of Pub. L. 95-600 effective on Oct. 4, 1976, see section 703(r) of Pub. L. 95-600, set out as a note under section 46 of this title.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 1063(a) of Pub. L. 94-455 applicable to participation in or cooperation with an international boycott more than 30 days after Oct. 4, 1976, with special provisions for existing contracts, see section 1066(a) of Pub. L. 94-455, set out as a note under section 908 of this title.

Amendment by section 1065(a)(2) of Pub. L. 94-455 applicable to payments described in section 162(c) of this title made more than 30 days after Oct. 4, 1976, see section 1066(b) of Pub. L. 94-455, set out as a note under section 952 of this title.

Pub. L. 94-455, title XI, §1101(g)(1), Oct. 4, 1976, 90 Stat. 1659, provided that: "The amendments made by subsections (a) and (e) [amending this section and section 996 of this title] shall apply to taxable years beginning after December 31, 1975."

Pub. L. 94-455, title XI, §1101(g)(4), Oct. 4, 1976, 90 Stat. 1659, as amended by Pub. L. 95-600, title VII, §701(u)(12)(A), Nov. 6, 1978, 92 Stat. 2918, provided that: "The amendments made by subsection (d) [amending this section and section 751 of this title] shall apply to sales, exchanges, or other dispositions after December 31, 1976, in taxable years ending after such date."

Amendment by section 1901(b)(3)(K) of Pub. L. 94-455 applicable with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§1101-1147 and 1171-1177] or title XVIII [§§1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

PRORATION OF BASE PERIOD IN CASE OF FIXED
CONTRACTS

Pub. L. 94-455, title XI, §1101(g)(5), Oct. 4, 1976, 90 Stat. 1659, as amended by Pub. L. 95-600, title VII, §703(i)(4), Nov. 6, 1978, 92 Stat. 2940; Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that: "For purposes of determining adjusted base period export gross receipts (under section 995(e)(3) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954], as amended by this section), if any DISC has export gross receipts from export property by reason of paragraph (2) of section 603(b) of the Tax Reduction Act of 1975, [set out as an Effective Date of 1975 Amendment note under section 993 of this title], then the export gross receipts of such DISC for the taxable years of the base period shall be increased by an amount equal to the amount of gross receipts which were excluded from export gross receipts during each taxable year of the base period by reason of the last sentence of section 995(e)(3) of such Code multiplied by a fraction, the numerator of which is the amount of the gross receipts in the taxable year which are export gross receipts by reason of paragraph (2) of section 603(b) of the Tax Reduction Act of 1975 and the denominator of which is the amount of total gross receipts which are excluded from export gross receipts in the taxable year by reason of subparagraph (C) or (D) of paragraph (2) of section 993(c) (determined without regard to paragraph (2) of section 603(b) of the Tax Reduction Act of 1975)."

§ 996. Rules for allocation in the case of distributions and losses

(a) Rules for actual distributions and certain deemed distributions

(1) In general

Any actual distribution (other than a distribution described in paragraph (2) or to which section 995(c) applies) to a shareholder by a DISC (or former DISC) which is made out of earnings and profits shall be treated as made—

(A) first, out of previously taxed income, to the extent thereof,

(B) second, out of accumulated DISC income, to the extent thereof, and

(C) finally, out of other earnings and profits.

(2) Qualifying distributions

Any actual distribution made pursuant to section 992(c) (relating to distributions to meet qualification requirements), and any deemed distribution pursuant to section 995(b)(1)(G) (relating to foreign investment attributable to producer's loans), shall be treated as made—

(A) first, out of accumulated DISC income, to the extent thereof,

(B) second, out of the earnings and profits described in paragraph (1)(C), to the extent thereof, and

(C) finally, out of previously taxed income.

In the case of any amount of any actual distribution to a C corporation made pursuant to section 992(c) which is required to satisfy the condition of section 992(a)(1)(A), the preceding sentence shall apply to 16/17ths of such amount and paragraph (1) shall apply to the remaining 1/17th of such amount.

(3) Exclusion from gross income

Amounts distributed out of previously taxed income shall be excluded by the distributee from gross income except for gains described in subsection (e)(2), and shall reduce the amount of the previously taxed income.

(b) Ordering rules for losses

If for any taxable year a DISC, or a former DISC, incurs a deficit in earnings and profits, such deficit shall be chargeable—

(1) first, to earnings and profits described in subsection (a)(1)(C), to the extent thereof,

(2) second, to accumulated DISC income, to the extent thereof, and

(3) finally, to previously taxed income, except that a deficit in earnings and profits shall not be applied against accumulated DISC income which has been determined is to be deemed distributed to the shareholders (pursuant to section 995(b)(2)(A)) as a result of a revocation of election or other disqualification.

(c) Priority of distributions

Any actual distribution made during a taxable year shall be treated as being made subsequent to any deemed distribution made during such year. Any actual distribution made pursuant to section 992(c) (relating to distributions to meet qualification requirements) shall be treated as being made before any other actual distributions during the taxable year.

(d) Subsequent effect of previous disposition of DISC stock

(1) Shareholder previously taxed income adjustment

If—

(A) gain with respect to a share of stock of a DISC or former DISC is treated under section 995(c) as a dividend or as ordinary income, and

(B) any person subsequently receives an actual distribution made out of accumulated DISC income, or a deemed distribution made pursuant to section 995(b)(2), with respect to such share,

such person shall treat such distribution in the same manner as a distribution from pre-