

able years of foreign corporations end, see section 14201(d) of Pub. L. 115-97, set out as a note under section 904 of this title.

Amendment by section 14301(b) of Pub. L. 115-97 applicable to taxable years of foreign corporations beginning after Dec. 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end, see section 14301(d) of Pub. L. 115-97, set out as a note under section 78 of this title.

#### EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-226, title II, §214(b), Aug. 10, 2010, 124 Stat. 2399, provided that: "The amendment made by this section [amending this section] shall apply to acquisitions of United States property (as defined in section 956(c) of the Internal Revenue Code of 1986) after December 31, 2010."

#### EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title XI, §1113(c), Aug. 5, 1997, 111 Stat. 971, provided that:

"(1) IN GENERAL.—The amendments made by this section [amending this section and section 902 of this title] shall apply to taxes of foreign corporations for taxable years of such corporations beginning after the date of enactment of this Act [Aug. 5, 1997].

"(2) SPECIAL RULE.—In the case of any chain of foreign corporations described in clauses (i) and (ii) of [former] section 902(b)(2)(B) of the Internal Revenue Code of 1986 (as amended by this section), no liquidation, reorganization, or similar transaction in a taxable year beginning after the date of the enactment of this Act shall have the effect of permitting taxes to be taken into account under section 902 of the Internal Revenue Code of 1986 which could not have been taken into account under such section but for such transaction."

#### EFFECTIVE DATE OF 1993 AMENDMENT

Pub. L. 103-66, title XIII, §13233(b)(2), Aug. 10, 1993, 107 Stat. 504, provided that: "The amendment made by paragraph (1) [amending this section] shall apply to taxable years beginning after September 30, 1993."

#### EFFECTIVE DATE OF 1986 AMENDMENT

Pub. L. 99-514, title XII, §1202(e), Oct. 22, 1986, 100 Stat. 2531, provided that: "The amendments made by this section [amending this section and sections 902 and 6038 of this title] shall apply to distributions by foreign corporations out of, and to inclusions under section 951(a) of the Internal Revenue Code of 1986 attributable to, earnings and profits for taxable years beginning after December 31, 1986."

#### EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 1031(b)(1) of Pub. L. 94-455 applicable to taxable years beginning after Dec. 31, 1975, see section 1031(c) of Pub. L. 94-455, set out as a note under section 904 of this title.

Pub. L. 94-455, title X, §1033(c), Oct. 4, 1976, 90 Stat. 1628, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that: "The amendments made by this section [amending this section and sections 78, 535, 545, and 902 of this title] shall apply—

"(1) in respect of any distribution received by a domestic corporation after December 31, 1977, and

"(2) in respect of any distribution received by a domestic corporation before January 1, 1978, in a taxable year of such corporation beginning after December 31, 1975, but only to the extent that such distribution is made out of the accumulated profits of a foreign corporation for a taxable year (of such foreign corporation) beginning after December 31, 1975.

For purposes of paragraph (2), a distribution made by a foreign corporation out of its profits which are attributable to a distribution received from a foreign corporation to which [former] section 902(b) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] applies shall

be treated as made out of the accumulated profits of a foreign corporation for a taxable year beginning before January 1, 1976, to the extent that such distribution was paid out of the accumulated profits of such foreign corporation for a taxable year beginning before January 1, 1976."

Pub. L. 94-455, title X, §1037(b), Oct. 4, 1976, 90 Stat. 1634, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that: "The amendment made by this section [amending this section] shall apply with respect to earnings and profits of a foreign corporation, included, under section 951(a) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954], in the gross income of a domestic corporation in taxable years beginning after December 31, 1976."

#### INCREASE IN EARNINGS AND PROFITS OF FOREIGN CORPORATIONS UNDER SECTION 1023(e)(3)(C) OF PUB. L. 99-514

Pub. L. 100-647, title I, §1012(b)(3), Nov. 10, 1988, 102 Stat. 3496, provided that: "For purposes of sections [former] 902 and 960 of the 1986 Code, the increase in earnings and profits of any foreign corporation under section 1023(e)(3)(C) of the Reform Act [Pub. L. 99-514, set out as an Effective Date note under section 846 of this title] shall be taken into account ratably over the 10-year period beginning with the corporation's first taxable year beginning after December 31, 1986."

### § 961. Adjustments to basis of stock in controlled foreign corporations and of other property

#### (a) Increase in basis

Under regulations prescribed by the Secretary, the basis of a United States shareholder's stock in a controlled foreign corporation, and the basis of property of a United States shareholder by reason of which he is considered under section 958(a)(2) as owning stock of a controlled foreign corporation, shall be increased by the amount required to be included in his gross income under section 951(a) with respect to such stock or with respect to such property, as the case may be, but only to the extent to which such amount was included in the gross income of such United States shareholder. In the case of a United States shareholder who has made an election under section 962 for the taxable year, the increase in basis provided by this subsection shall not exceed an amount equal to the amount of tax paid under this chapter with respect to the amounts required to be included in his gross income under section 951(a).

#### (b) Reduction in basis

##### (1) In general

Under regulations prescribed by the Secretary, the adjusted basis of stock or other property with respect to which a United States shareholder or a United States person receives an amount which is excluded from gross income under section 959(a) shall be reduced by the amount so excluded. In the case of a United States shareholder who has made an election under section 962 for any prior taxable year, the reduction in basis provided by this paragraph shall not exceed an amount equal to the amount received which is excluded from gross income under section 959(a) after the application of section 962(d).

##### (2) Amount in excess of basis

To the extent that an amount excluded from gross income under section 959(a) exceeds the adjusted basis of the stock or other property

with respect to which it is received, the amount shall be treated as gain from the sale or exchange of property.

**(c) Basis adjustments in stock held by foreign corporations**

Under regulations prescribed by the Secretary, if a United States shareholder is treated under section 958(a)(2) as owning stock in a controlled foreign corporation which is owned by another controlled foreign corporation, then adjustments similar to the adjustments provided by subsections (a) and (b) shall be made to—

- (1) the basis of such stock, and
- (2) the basis of stock in any other controlled foreign corporation by reason of which the United States shareholder is considered under section 958(a)(2) as owning the stock described in paragraph (1),

but only for the purposes of determining the amount included under section 951 in the gross income of such United States shareholder (or any other United States shareholder who acquires from any person any portion of the interest of such United States shareholder by reason of which such shareholder was treated as owning such stock, but only to the extent of such portion, and subject to such proof of identity of such interest as the Secretary may prescribe by regulations). The preceding sentence shall not apply with respect to any stock to which a basis adjustment applies under subsection (a) or (b).

**(d) Basis in specified 10-percent owned foreign corporation reduced by nontaxed portion of dividend for purposes of determining loss**

If a domestic corporation received a dividend from a specified 10-percent owned foreign corporation (as defined in section 245A) in any taxable year, solely for purposes of determining loss on any disposition of stock of such foreign corporation in such taxable year or any subsequent taxable year, the basis of such domestic corporation in such stock shall be reduced (but not below zero) by the amount of any deduction allowable to such domestic corporation under section 245A with respect to such stock except to the extent such basis was reduced under section 1059 by reason of a dividend for which such a deduction was allowable.

(Added Pub. L. 87-834, §12(a), Oct. 16, 1962, 76 Stat. 1022; amended Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 105-34, title XI, §1112(b)(1), Aug. 5, 1997, 111 Stat. 969; Pub. L. 109-135, title IV, §409(b), Dec. 21, 2005, 119 Stat. 2635; Pub. L. 115-97, title I, §14102(b)(1), Dec. 22, 2017, 131 Stat. 2192.)

**Editorial Notes**

**AMENDMENTS**

2017—Subsec. (d). Pub. L. 115-97 added subsec. (d).

2005—Subsec. (c). Pub. L. 109-135 amended heading and text of subsec. (c) generally. Prior to amendment, text read as follows: “Under regulations prescribed by the Secretary, if a United States shareholder is treated under section 958(a)(2) as owning any stock in a controlled foreign corporation which is actually owned by another controlled foreign corporation, adjustments similar to the adjustments provided by subsections (a) and (b) shall be made to the basis of such stock in the hands of such other controlled foreign corporation, but

only for the purposes of determining the amount included under section 951 in the gross income of such United States shareholder (or any other United States shareholder who acquires from any person any portion of the interest of such United States shareholder by reason of which such shareholder was treated as owning such stock, but only to the extent of such portion, and subject to such proof of identity of such interest as the Secretary may prescribe by regulations).”

1997—Subsec. (c). Pub. L. 105-34 added subsec. (c).

1976—Subsecs. (a), (b)(1). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

**Statutory Notes and Related Subsidiaries**

**EFFECTIVE DATE OF 2017 AMENDMENT**

Pub. L. 115-97, title I, §14102(b)(2), Dec. 22, 2017, 131 Stat. 2192, provided that: “The amendments made by this subsection [amending this section] shall apply to distributions made after December 31, 2017.”

**EFFECTIVE DATE OF 2005 AMENDMENT**

Pub. L. 109-135, title IV, §409(d), Dec. 21, 2005, 119 Stat. 2636, provided that: “The amendments made by this section [amending this section and sections 6038B, 6411, and 6601 of this title] shall take effect as if included in the provisions of the Taxpayer Relief Act of 1997 [Pub. L. 105-34] to which they relate.”

**EFFECTIVE DATE OF 1997 AMENDMENT**

Pub. L. 105-34, title XI, §1112(b)(2), Aug. 5, 1997, 111 Stat. 969, provided that: “The amendment made by paragraph (1) [amending this section] shall apply for purposes of determining inclusions for taxable years of United States shareholders beginning after December 31, 1997.”

**DUAL RESIDENT COMPANIES**

Basis adjustments of this section not applicable in certain circumstances involving dual resident companies, see section 6126 of Pub. L. 100-647, set out as a note under section 1502 of this title.

**§ 962. Election by individuals to be subject to tax at corporate rates**

**(a) General rule**

Under regulations prescribed by the Secretary, in the case of a United States shareholder who is an individual and who elects to have the provisions of this section apply for the taxable year—

- (1) the tax imposed under this chapter on amounts which are included in his gross income under section 951(a) shall (in lieu of the tax determined under sections 1 and 55) be an amount equal to the tax which would be imposed under section 11 if such amounts were received by a domestic corporation, and

- (2) for purposes of applying the provisions of section 960<sup>1</sup> (relating to foreign tax credit) such amounts shall be treated as if they were received by a domestic corporation.

**(b) Election**

An election to have the provisions of this section apply for any taxable year shall be made by a United States shareholder at such time and in such manner as the Secretary shall prescribe by regulations. An election made for any taxable year may not be revoked except with the consent of the Secretary.

**(c) Pro ration of each section 11 bracket amount**

For purposes of applying subsection (a)(1), the amount in each taxable income bracket in the

<sup>1</sup> See References in Text note below.