

**Internal Revenue Service, Treasury**

**§ 1.961-1**

1979	
Less: Foreign income taxes allowed as a credit for 1978 which were allowable solely by reason of such section 951(a) inclusion (\$20,000-\$0) ..	20,000
Balance .....	24,750
But: Such balance not to exceed foreign income taxes paid by N Corporation for 1979 with respect to \$80,000 distribution excluded under section 959(a)(1) (\$10,000 tax withheld) .....	10,000
Overall limitation for 1979 .....	10,000
U.S. tax payable for 1979:	
U.S. tax before credit ( $25,000 \times 0.22$ ) .....	5,500
Credit: Foreign income taxes of \$10,000, but not to exceed overall limitation of \$10,000 for 1979 .....	10,000
U.S. tax payable .....	None
Overpayment of tax for 1979:	
Increase in limitation under section 960(b)(1) for 1979 .....	10,000
Less: Tax imposed for 1979 under chapter 1 of the Code .....	5,500
Excess treated as overpayment .....	4,500

[T.D. 7120, 36 FR 10859, June 4, 1971, as amended by T.D. 7649, 44 FR 60089, Oct. 18, 1979]

**§ 1.960-7 Effective dates.**

(a) *General rule.* Except as provided in paragraph (b), the rules contained in §§ 1.960-1—1.960-6 shall apply to taxable years of foreign corporations beginning after December 31, 1962, and taxable years of U.S. corporate shareholders within which or with which the taxable year of such foreign corporation ends.

(b) *Exception for less developed country corporations.* If for any taxable year beginning after December 31, 1962, and before January 1, 1976, a first-tier foreign corporation qualified as a less developed country corporation as defined in 26 CFR 1.902-2 revised as of April 1, 1978, the rules pertaining to less developed country corporations contained in 26 CFR 1.960-1—1.960-6 revised as of April 1, 1978, shall apply to any amounts required to be included in gross income under section 951 for such taxable year.

(c) *Third-tier credit.* The rules contained in §§ 1.960-1—1.960-6 shall apply

to amounts included in the gross income of a domestic corporation under section 951 with respect to the earnings and profits of third-tier corporations (as defined in § 1.960-1) in taxable years beginning after December 31, 1976.

[T.D. 7649, 44 FR 60089, Oct. 18, 1979, as amended by T.D. 7843, 47 FR 50484, Nov. 8, 1982]

**§ 1.961-1 Increase in basis of stock in controlled foreign corporations and of other property.**

(a) *Increase in basis—(1) In general.* Except as provided in subparagraph (2) of this paragraph, the basis of a United States shareholder's—

(i) Stock in a controlled foreign corporation; or

(ii) Property (as defined in paragraph (b)(1) of this section) by reason of the ownership of which he is considered under section 958(a)(2) as owning stock in a controlled foreign corporation shall be increased under section 961(a), as of the last day in the taxable year of such corporation on which it is a controlled foreign corporation, by the amount required to be included with respect to such stock or such property in such shareholder's gross income under section 951(a) for his taxable year in which or with which such taxable year of such corporation ends. The increase in basis provided by the preceding sentence shall be made only to the extent to which such amount required to be included in gross income under section 951(a) was so included in gross income.

(2) *Limitation on amount of increase in case of election under section 962.* In the case of a United States shareholder who makes the election under section 962 for the taxable year, the amount of the increase in basis provided by subparagraph (1) of this paragraph shall not exceed the amount of United States tax paid in accordance with such election with respect to the amounts included in such shareholder's gross income under section 951(a) for such year (as determined under § 1.962-1).

(b) *Rules of application—(1) Property defined.* The property of a United States shareholder referred to in paragraph (a)(1)(ii) of this section shall consist of—