

§ 1.1564-1

(b) *Plan for elimination of stock ownership.* (1) A plan referred to in paragraph (a)(3) of this section must:

(i) Provide a reasonable selling price for the stock of the member, and

(ii) Require that a portion of the employee's compensation or dividends, or both, from such member be applied to the purchase of such stock (or to the purchase of notes, bonds, debentures, or similar evidences of indebtedness of such member held by the parent corporation or the common owner).

It is not necessary, in order to satisfy the requirements of subdivision (ii) of this subparagraph, that the plan require that a percentage of every dollar of the compensation and dividends be applied to the purchase of the stock (or the indebtedness). The requirements of such subdivision are satisfied if an otherwise qualified plan provides that under certain specified conditions (such as a requirement that the member earn a specified profit) no portion of the compensation and/or dividends need be applied to the purchase of the stock (or indebtedness), provided such conditions are reasonable.

(2) A plan for the elimination of the stock ownership of the parent corporation or of the common owner will satisfy the requirements of paragraph (a)(3) of this section and subparagraph (1) of this paragraph even though it does not require that the stock of the member be sold to an employee (or employees) if it provides for the redemption of the stock of the member held by the parent or common owner and under the plan the amount of such stock to be redeemed during any period is calculated by reference to the profits of such member during such period.

[T.D. 6845, 30 FR 9757, Aug. 5, 1965]

§ 1.1564-1 Limitations on additional benefits for members of controlled groups.

(a) *In general.* Section 1564(a)(1) provides that, with respect to any December 31 after 1969 and before 1975, only one component member of a controlled group of corporations (as defined in section 1563(a)) shall be allowed the full amount of:

(1) The \$25,000 surtax exemption under section 1562 (relating to election of multiple surtax exemptions),

(2) The \$100,000 amount under section 535(c) (2) and (3) (relating to the accumulated earnings credit), and

(3) The \$25,000 limitation on the small business deduction of life insurance companies under sections 804(a)(4) and 809(d)(10).

The amounts otherwise allowed to the other component members of such controlled group for their taxable years which include such December 31 shall be reduced to the amounts set forth in the following schedule:

Taxable years including—	Surtax exemption	Amount under sec. 535(c) (2) and (3)	Small business deduction limitation
Dec. 31, 1970	\$20,833	\$83,333	\$20,833
Dec. 31, 1971	16,667	66,667	16,667
Dec. 31, 1972	12,500	50,000	12,500
Dec. 31, 1973	8,333	33,333	8,333
Dec. 31, 1974	4,167	16,667	4,167

(b) *Election.* (1) Section 1564(a)(2) provides that, with respect to any December 31 after 1969 and before 1975, the component members of a controlled group of corporations shall elect which component member or members of such group shall be allowed for their taxable years which includes such December 31 the full amounts described in paragraph (a) (1), (2), and (3) of this section. In making such election, the members may allocate such full amounts among themselves in any manner they choose. For example, the group may select one of its members to receive the full amount of the \$25,000 surtax exemption under section 1562 and another of its members to receive the full \$100,000 amount under section 535(c)(2), or it may select one of its members to claim both, such full amounts.

(2) The election shall be made with respect to a particular December 31 and shall be valid only if each corporation which is a component member of the controlled group on such December 31 gives its consent. The consents shall be made by means of a statement, signed by persons duly authorized to act on behalf of each of the component members (other than wholly owned subsidiaries), stating which member has been selected to receive the amount which is not reduced under paragraph (a) of this section. The member so selected shall attach the statement to its income tax

return for the taxable year including such December 31. The statement shall set forth the name, address, employer identification number, and taxable years of each of the other component members (including wholly owned subsidiaries) of the controlled group. Such other members shall attach a copy of the statement to their income tax returns for their taxable years including such December 31. An election plan adopted by a controlled group with respect to a particular December 31 shall be valid only for the taxable year of each member of the group which includes such December 31.

(3) Each component member of a controlled group which is a wholly owned subsidiary of such group with respect to a December 31 shall be deemed to consent to an election with respect to such December 31, provided each component member of the group which is not a wholly owned subsidiary consents to the election plan. A component member of a controlled group shall be considered to be a wholly owned subsidiary of the group with respect to a December 31 if, on each day preceding such date during its taxable year which includes such date, all of its stock is owned directly by one or more corporations which are component members of the group on such December 31.

[T.D. 7181, 37 FR 8071, Apr. 25, 1972]

Procedure and Administration

INFORMATION AND RETURNS

RETURNS AND RECORDS

SOURCE: Sections 1.6001-1 to 1.6091-4 contained in T.D. 6500, 25 FR 12108, Nov. 26, 1960, unless otherwise noted.

RECORDS, STATEMENTS, AND SPECIAL RETURNS

§ 1.6001-1 Records.

(a) *In general.* Except as provided in paragraph (b) of this section, any person subject to tax under subtitle A of the Code (including a qualified State individual income tax which is treated pursuant to section 6361(a) as if it were imposed by chapter 1 of subtitle A), or any person required to file a return of information with respect to income,

shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.

(b) *Farmers and wage-earners.* Individuals deriving gross income from the business of farming, and individuals whose gross income includes salaries, wages, or similar compensation for personal services rendered, are required with respect to such income to keep such records as will enable the district director to determine the correct amount of income subject to the tax. It is not necessary, however, that with respect to such income individuals keep the books of account or records required by paragraph (a) of this section. For rules with respect to the records to be kept in substantiation of traveling and other business expenses of employees, see § 1.162-17.

(c) *Exempt organizations.* In addition to such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033. See section 6033 and §§ 1.6033-1 through 1.6033-3.

(d) *Notice by district director requiring returns statements, or the keeping of records.* The district director may require any person, by notice served upon him, to make such returns, render such statements, or keep such specific records as will enable the district director to determine whether or not such person is liable for tax under subtitle A of the Code, including qualified State individual income taxes, which are treated pursuant to section 6361(a) as if they were imposed by chapter 1 of subtitle A.

(e) *Retention of records.* The books or records required by this section shall