

§ 1.1502-27

26 CFR Ch. I (4-1-04 Edition)

owned bears to the value of all the outstanding stock in the member. For purposes of this paragraph the term "stock" includes nonvoting stock which is limited and preferred as to dividends.

(6) For purposes of paragraph (a)(4)(i) of this section, if two or more thrift institutions that are both members of the group each owns 5 percent or more of the same member's stock, the member's stock will be considered to be owned only by the thrift institution with the highest applicable percentage.

(b) *Intercompany dividends.* The deduction determined under paragraph (a) of this section is determined without taking into account intercompany dividends to the extent that, under § 1.1502-13(f)(2), they are not included in gross income. See § 1.1502-13 for additional rules relating to intercompany dividends.

(c) *Examples.* The provisions of this section may be illustrated by the following examples:

*Example (1).* Corporations P, S, and S-1 filed a consolidated return for the calendar year 1966 showing consolidated taxable income of \$100,000 (determined without regard to the consolidated net operating loss deduction, consolidated dividends received deduction, and the consolidated section 247 deduction). Such corporations received dividends during such year from nonmember domestic corporations as follows:

	<i>Dividends</i>
Corporation:	
P .....	\$6,000
S .....	10,000
S-1 .....	34,000
Total .....	50,000

The dividends received deduction allowable to each member under section 243(a)(1) (computed without regard to the limitation in section 246(b)) is as follows: P has \$5,100 (85 percent of \$6,000), S has \$8,500 (85 percent of \$10,000), and S-1 has \$28,900 (85 percent of \$34,000), or a total of \$42,500. Since \$42,500 is less than \$85,000 (85 percent of \$100,000), the consolidated dividends received deduction is \$42,500.

*Example (2).* Assume the same facts as in example (1) except that consolidated taxable income (computed without regard to the consolidated net operating loss deduction, consolidated dividends received deduction, and the consolidated section 247 deduction) was \$40,000. The aggregate of the dividends received deductions, \$42,500, computed without

regard to section 246(b), results in a consolidated net operating loss of \$2,500. See section 172(d)(6). Therefore, paragraph (a)(2) of this section does not apply and the consolidated dividends received deduction is \$42,500.

[T.D. 6894, 31 FR 11794, Sept. 8, 1966, as amended by T.D. 7631, 44 FR 40497, July 11, 1979; T.D. 8597, 60 FR 36710, July 18, 1995; T.D. 8677, 61 FR 33323, June 27, 1996; T.D. 8823, 64 FR 36099, July 2, 1999]

**§ 1.1502-27 Consolidated section 247 deduction.**

(a) *Amount of deduction.* The consolidated section 247 deduction for the taxable year shall be an amount computed as follows:

(1) First, determine the amount which is the lesser of:

(i) The aggregate of the dividends paid (within the meaning of section 247(a)) during such year by members of the group which are public utilities (within the meaning of section 247(b)(1)) on preferred stock (within the meaning of section 247(b)(2)), other than dividends paid to other members of the group, or

(ii) The aggregate of the taxable income (or loss) (as determined under paragraph (b) of this section) of each such member which is a public utility.

(2) Then, multiply the amount determined under subparagraph (1) of this paragraph by the fraction specified in section 247(a)(2).

(b) *Computation of taxable income.* For purposes of paragraph (a)(1)(ii) of this section, the taxable income (or loss) of a member of the group described in paragraph (a)(1)(i) shall be determined under § 1.1502-12, adjusted for the following items taken into account in the computation of consolidated taxable income:

(1) The portion of the consolidated net operating loss deduction, the consolidated charitable contributions deduction, and the consolidated dividends received deduction, attributable to such member;

(2) Such member's capital gain net income (net capital gain for taxable years beginning before January 1, 1977) (determined without regard to any net capital loss carryover or carryback attributable to such member);

(3) Such member's net capital loss and section 1231 net loss, reduced by

the portion of the consolidated net capital loss attributable to such member; and

(4) The portion of any consolidated net capital loss carryover or carryback attributable to such member which is absorbed in the taxable year.

[T.D. 6894, 31 FR 11794, Sept. 8, 1966, as amended by T.D. 7728, 45 FR 72650, Nov. 3, 1980]

**§ 1.1502-28T Consolidated section 108 (temporary).**

(a) *In general.* This section sets forth rules for the application of section 108(a) and the reduction of tax attributes pursuant to section 108(b) when a member of the group realizes discharge of indebtedness income that is excluded from gross income under section 108(a) (excluded COD income).

(1) *Application of section 108(a).* Section 108(a)(1)(B) is applied separately to each member that realizes excluded COD income. Therefore, the limitation of section 108(a)(3) on the amount of discharge of indebtedness income that is treated as excluded COD income is determined based on the assets (including stock and securities of other members) and liabilities (including liabilities to other members) of only the member that realizes excluded COD income.

(2) *Reduction of tax attributes attributable to the debtor—(i) In general.* With respect to a member that realizes excluded COD income in a taxable year, the tax attributes attributable to that member (and its direct and indirect subsidiaries to the extent required by section 1017(b)(3)(D) and paragraph (a)(3) of this section), including basis of assets and losses and credits arising in separate return limitation years, shall be reduced as provided in sections 108 and 1017 and this section. Basis of subsidiary stock, however, shall not be reduced below zero.

(ii) *Consolidated tax attributes attributable to a member.* For purposes of this section, the amount of a consolidated tax attribute that is attributable to a member shall be determined pursuant to the principles of § 1.1502-21T(b)(2)(iv). In addition, if the member is a member of a separate return limitation year subgroup, the amount of a tax attribute that arose in a separate return

limitation year that is attributable to that member shall also be determined pursuant to the principles of § 1.1502-21T(b)(2)(iv).

(3) *Look-through rules—(i) Priority of section 1017(b)(3)(D).* If a member treats stock of a subsidiary as depreciable property pursuant to section 1017(b)(3)(D), the basis of the depreciable property of such subsidiary shall be reduced pursuant to section 1017(b)(3)(D) prior to the application of paragraph (a)(3)(ii) of this section.

(ii) *Application of additional look-through rule.* If the basis of stock of a member (the lower-tier member) that is owned by another member is reduced pursuant to section 108, section 1017, and paragraph (a)(2) of this section (but not as a result of treating subsidiary stock as depreciable property pursuant to section 1017(b)(3)(D)), solely for purposes of sections 108 and 1017 and this section other than paragraphs (a)(4) and (b)(1) of this section, the lower-tier member shall be treated as realizing excluded COD income. The amount of such excluded COD income shall be the amount of such basis reduction. Accordingly, the tax attributes attributable to such lower-tier member shall be reduced as provided in sections 108 and 1017 and this section. To the extent that the excluded COD income realized by the lower-tier member pursuant to this paragraph (a)(3) does not reduce a tax attribute attributable to the lower-tier member, such excluded COD income shall not be applied to reduce tax attributes attributable to any member under paragraph (a)(4) of this section.

(4) *Reduction of certain tax attributes attributable to other members.* To the extent that, pursuant to paragraph (a)(2) of this section, the excluded COD income is not applied to reduce the tax attributes attributable to the member that realizes the excluded COD income, after the application of paragraph (a)(3) of this section, such amount shall be applied to reduce the remaining consolidated tax attributes of the group as provided in section 108 and this section. Such amount also shall be applied to reduce the tax attributes attributable to members that arose (or are treated as arising) in a separate return limitation year to the extent that the member that realizes excluded COD income