

(2) *Certain meal expenses.* Paragraph (h) of this section is effective for expenses paid or incurred after December 31, 1982.

[T.D. 6630, 27 FR 12931, Dec. 29, 1972, as amended by T.D. 7226, 37 FR 26711, Dec. 15, 1972; T.D. 7909, 48 FR 40370, Sept. 7, 1983; 48 FR 41017, Sept. 13, 1983; T.D. 8051, 50 FR 36576, Sept. 9, 1985. Redesignated by T.D. 8715, 62 FR 13990, Mar. 25, 1997; T.D. 8996, 67 FR 35008, May 17, 2002]

TERMINAL RAILROAD CORPORATIONS AND
THEIR SHAREHOLDERS

§ 1.281-1 In general.

Section 281 provides special rules for the computation of the taxable incomes of a terminal railroad corporation and its shareholders when the terminal railroad corporation, as a result of taking related terminal income into account, reduces a charge which was made or which would be made for related terminal services furnished to a railroad corporation. Section 281 and paragraphs (a) and (b) of § 1.281-2 provide that the “reduced amount” described in paragraph (c) of § 1.281-2 is not includable in gross income of the terminal railroad corporation, is not treated as a dividend or other distribution to its railroad shareholders, and is not treated as an amount paid or incurred by the railroad shareholders to the terminal railroad corporation. Section 281 and paragraph (a)(2) of § 1.281-2 provide that no deduction otherwise allowable to a terminal railroad corporation shall be disallowed as a result of the “reduced amount” described in paragraph (c) of § 1.281-2. Section 1.281-3 defines the terms *terminal railroad corporation*, *related terminal income*, *related terminal services*, *agreement*, and *railroad corporation*. Section 1.281-4 describes the effective dates and special rules for application of section 281 to taxable years ending before October 23, 1962.

[T.D. 7356, 40 FR 23732, June 2, 1975]

§ 1.281-2 Effect of section 281 upon the computation of taxable income.

(a) *Computation of taxable income of terminal railroad corporations—(1) Income not considered received or accrued.* A terminal railroad corporation (as defined in paragraph (a) of § 1.281-3) shall not be considered to have received or

accrued the “reduced amount” described in paragraph (c) of this section in the computation of its taxable income. Thus, income is not to be considered accrued or actually or constructively received by a terminal railroad corporation where, in the manner described in paragraph (c) of this section, (i) a charge which would be made to any railroad corporation for related terminal services is not made, or (ii) a portion of any liability payable by any railroad corporation with respect to related terminal services is discharged.

(2) *Deduction not disallowed.* In the computation of the taxable income of a terminal railroad corporation, a deduction relating to a “reduced amount”, described in paragraph (c) of this section, which is otherwise allowable to it under chapter 1 of the Code (without regard to sec. 277) shall not be disallowed by reason of section 281. Thus, deductions for expenses attributable to services rendered to a shareholder are not to be disallowed to a terminal railroad corporation merely because, in the manner described in paragraph (c) of this section, (i) a charge which would be made to any railroad corporation for related terminal services is not made, or (ii) a portion of any liability payable by any railroad corporation with respect to related terminal services is discharged. To the extent that section 281 applies to a deduction relating to a “reduced amount”, such deduction shall not be disallowed under section 277.

(b) *Computation of taxable income of shareholders—(1) Income not considered received or accrued.* A shareholder of a terminal railroad corporation shall not be considered to have received or accrued any “reduced amount” (described in paragraph (c) of this section) in the computation of the shareholder’s taxable income. Thus a dividend is not to be considered actually or constructively received by a shareholder of a terminal railroad corporation merely because, in the manner described in paragraph (c) of this section, (i) a charge which would be made to the shareholder or any other railroad corporation for related terminal services