

holding company income, neither of these deductions is allowable.

[T.D. 6500, 25 FR 11737, Nov. 26, 1960, as amended by T.D. 7207, 37 FR 20796, Oct. 5, 1972; T.D. 9100, 68 FR 70704, Dec. 19, 2003]

§ 1.556-2T Adjustments to taxable income (temporary).

(a) through (e)(2)(vi) [Reserved]. For further guidance, see § 1.556-2(a) through (e)(2)(vi).

(e)(2)(vii) In the case of a return for a taxable year beginning before January 1, 2003, a copy of the contract, lease, or rental agreement;

(e)(2)(viii) through (xi) [Reserved]. For further guidance, see § 1.556-2(e)(2)(viii) through (xi).

(3) If the statement described in § 1.556-2(e)(2) is attached to a taxpayer's income tax return for a taxable year beginning after December 31, 2002, a copy of the applicable contract, lease or rental agreement is not required to be submitted with the return, but must be retained by the taxpayer and kept available for inspection in the manner required by § 1.6001-1(e).

(f) [Reserved]. For further guidance, see § 1.556-2(f).

[T.D. 9100, 68 FR 70705, Dec. 19, 2003; 69 FR 5017, Feb. 3, 2004]

§ 1.556-3 Illustration of computation of undistributed foreign personal holding company income.

The method of computation of the undistributed foreign personal holding company income may be illustrated by the following example:

Example. (a) The following facts exist with respect to the M Corporation, a foreign personal holding company, for the calendar year 1954:

(1) The gross income of the corporation as defined in section 555 amounts to \$300,000, of which \$85,000 represents its distributive share of the undistributed foreign personal holding company income of another foreign personal holding company in which it is a shareholder, \$200,000 consists of dividends, \$10,000 consists of fully taxable interest, and the remainder (\$5,000) consists of rent received from the principal shareholder of the corporation for the use of property owned by the corporation.

(2) The expenses of the corporation amount to \$85,000, of which \$75,000 is allocable to the maintenance and operation of the property used by the principal shareholder and \$10,000 consists of ordinary and necessary office ex-

penses allowable as a deduction. The claim for deduction for the expenses of, and depreciation on, the rented property in excess of the rent received for its use is not established as provided in section 556(b)(5). The yearly depreciation on the rented property amounts to \$30,000.

(3) Federal income tax withheld at the source on the income of the corporation from sources within the United States amounts to \$59,125.

(4) No gain from the sale or exchange of stock or securities is realized during the taxable year, but losses in the amount of \$10,000 are sustained from the sale of stock or securities which constitute capital assets. Such losses are not allowed as a deduction in any amount. See section 1211(a).

(5) Contributions, payment of which is made to or for the use of donees described in section 170(b)(1)(A) for the purposes therein specified, amount to \$15,000, of which \$5,000 is deductible in computing taxable income under section 63.

(6) Dividends paid by the corporation to its shareholders during the taxable year amount to \$50,000.

(b) The taxable income of the corporation (including the distributive share of the undistributed foreign personal holding company income of the other foreign personal holding company) is \$180,000, computed as follows (assuming for the purposes of this example only that the expenses of, and depreciation on, the rental property are deductible under sections 162 and 167):

<i>Income (Section 61)</i>	
Dividends	\$200,000
Interest	10,000
Rent	5,000
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Gross income as defined in section 61	215,000
Add:	
Distributive share of undistributed income of the other foreign personal holding company (considered as a dividend)	85,000
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Gross income as defined in section 555	300,000
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<i>Deductions (Section 161)</i>	
Expenses allocable to operation of the rented property	\$75,000
Depreciation of the rented property	30,000
Ordinary and necessary expenses (office)	10,000
Contributions (within the 5-percent limitation specified in section 170(b) (2)	5,000
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Taxable income for purposes of computing undistributed foreign personal holding company income	180,000

(c) The undistributed foreign personal holding company income of the corporation is \$160,875, computed as follows:

Taxable income for purposes of computing undistributed foreign personal holding company income	\$180,000
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