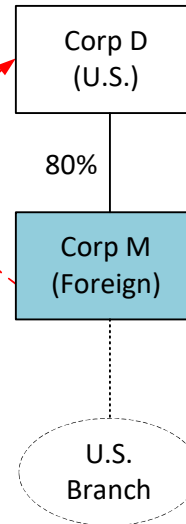


Dividends Received Deduction for Dividend from Foreign Corporation

U.S. source dividend = 60,000
Foreign source dividend = 40,000

Dividend of 100,000 in 1971



Dividends received deduction = 51,000 (60,000 x 85%)
(The percentage for the DRD is under old law.
See section 243(a) for current percentages.)

Engaged in U.S. trade or business for uninterrupted period for 1968, 1969, and 1970 (36 months) and gross income from the U.S. branch was 60% of all of Corp M's gross income during this time.

D, a domestic corporation, owns 80 percent of the outstanding stock of M, a foreign manufacturing corporation. M, which makes its returns on the basis of the calendar year, has earnings and profits of \$200,000 for 1971 and 60 percent of its gross income for that year is effectively connected for 1971 with the conduct of a trade or business in the United States. For an uninterrupted period of 36 months ending on December 31, 1970, M has been engaged in trade or business in the United States and has received gross income effectively connected with the conduct of a trade or business in the United States amounting to 60 percent of its gross income from all sources for such period. The only distribution by M to D for 1971 is a cash dividend of \$100,000; of this amount, \$60,000 ($\$100,000 \times 60\%$) is treated under subdivision (i) of this subparagraph as income from sources within the United States, and \$40,000 ($\$100,000 - \$60,000$) is treated under § 1.862-1(a)(2) as income from sources without the United States. Accordingly, under section 245(a), D is entitled to a dividends-received deduction of \$51,000 ($\$60,000 \times 85\%$), and under subdivision (ii) of this subparagraph \$40,000 ($\$100,000 - [\$51,000 \times 100/85]$) is treated as income from sources without the United States for purposes of determining under section 904(a) (1) or (2) the limitation upon the amount of the foreign tax credit.