The Form 5471 Series (2023-2024)
Episode 7

Distributions from Controlled Foreign Corporations

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October 27, 2023

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INTERNATIONAL TAX

The Form 5471 Series (2023-2024)

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1. Why There's a Double-Taxation Problem and How It's Solved

“Distribution” vs. “dividend”

- “**Distribution**” — a corporation transfers money or property to a shareholder based stock ownership.
  - Compare a “distribution” to loans, compensation, royalties, or other types of payments that are based on other types of legal relationships between the shareholder and the corporation.
- “**Dividend**” — a distribution to the shareholder from a corporation’s earnings and profits.

Why there is a double-taxation problem with distributions

- Subchapter C principles are violated:
    - A CFC's E & P is gross income for a United States shareholder. IRC §§951(a), 951A(a).
- Subchapter C principles are respected:
    - A CFC's E & P is dividend income for a United States shareholder when distributed. IRC §§301, 316.

How the Code solves the double-taxation problem

- The double-taxation problem is solved in the same way that it's created:
  - Subchapter C principles are violated for **previously-taxed** E & P:
    - "That CFC's 'dividend' isn't a *dividend*." IRC §959(d) overrides IRC §316.
  - Subchapter C principles are respected for **untaxed** E & P:
    - "Dividend distributions *are* income." IRC §301(c)(1).
  - Subchapter C principles are neutered for dividends from untaxed E & P:
    - "Here's a dividend-received deduction to offset the income." IRC §245A.

2. Gross Income Exclusion (IRC §959)

Applies to distributions of previously-taxed earnings and profits.

The “who?” and “what?” of the IRC §959 gross income exclusion

- Who can use the IRC §959 gross income exclusion?
    - United States shareholders of all types.
- What does it apply to?
    - Distributions of **previously-taxed** earnings and profits.

IRC §959(a): exclude distributions of previously-taxed E & P

(a) *Exclusion from gross income of United States persons*. For purposes of this chapter, the earnings and profits of a foreign corporation attributable to amounts which are, or have been, included in the gross income of a United States shareholder under section 951(a) shall not, when—

(1) such amounts are distributed to, or

(2) such amounts would, but for this subsection, be included under section 951(a)(1)(B) in the gross income of,

such shareholder (or any other United States person who acquires from any person any portion of the interest of such United States shareholder in such foreign corporation, but only to the extent of such portion, and subject to such proof of the identity of such interest as the Secretary may by regulations prescribe) directly or indirectly through a chain of ownership described under section 958(a), be again included in the gross income of such United States shareholder (or of such other United States person). The rules of subsection (c) shall apply for purposes of paragraph (1) of this subsection and the rules of subsection (f) shall apply for purposes of paragraph (2) of this subsection.

IRC §959(a): exclude distributions of previously-taxed E & P *(deletions)*

(a) ~~*Exclusion from gross income of United States persons*. For purposes of this chapter, the~~ earnings and profits of a foreign corporation ~~attributable to amounts~~ which ~~are, or~~ have been~~,~~ included in the gross income of a United States shareholder under section 951(a) shall not, when~~—~~

(1) ~~such~~ amounts are distributed to~~, or~~

(2) ~~such amounts would, but for this subsection, be included under section 951(a)(1)(B) in the gross income of,~~

such shareholder ~~(or any other United States person who acquires from any person any portion of the interest of such United States shareholder in such foreign corporation, but only to the extent of such portion, and subject to such proof of the identity of such interest as the Secretary may by regulations prescribe) directly or indirectly through a chain of ownership described under section 958(a),~~ be again included in the gross income of such United States shareholder ~~(or of such other United States person)~~. ~~The rules of subsection (c) shall apply for purposes of paragraph (1) of this subsection and the rules of subsection (f) shall apply for purposes of paragraph (2) of this subsection.~~

IRC §959(a): exclude distributions of previously-taxed E & P *(simplified)*

- IF
  - “[E]arnings and profits of a foreign corporation attributable to amounts which . . . have been . . . included in the gross income of a United States shareholder . . .
- THEN
  - shall **not**, when . . . such amounts are distributed to . . . such shareholder . . . **be again included** in the gross income of such United States shareholder. . . .”

IRC §959(d): distributions are not treated as dividends

- "Any distribution excluded from gross income under subsection (a) shall be treated, for purposes of this chapter, as a **distribution which is not a dividend**; except that such distributions shall immediately reduce earnings and profits."

How a dividend (IRC §316) is not a dividend (IRC §959)

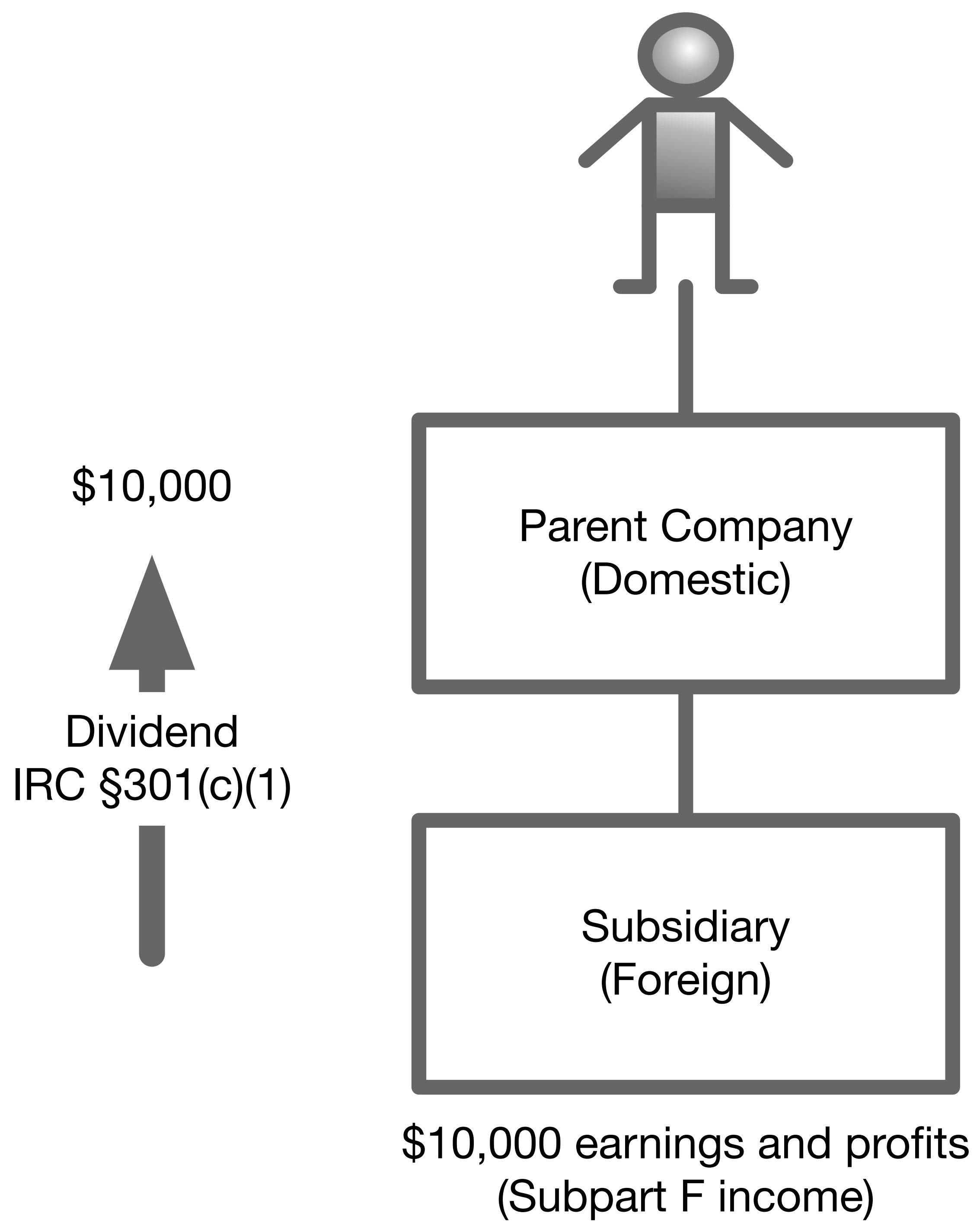
- Dividends are distributions from earnings and profits. IRC §316.
- Shareholders classify distributions received as taxable (or not) under IRC §301(c).
- A shareholder treats the distribution first as a dividend to the extent it is a distribution from earnings and profits. IRC §301(c)**(1)**.
  - But IRC §959(d) says a distribution made from a CFC's previously-taxed earnings and profits is not a dividend, so IRC §301(c)(1) is not applicable.
  - Therefore, this is a "distribution that is not a dividend" — which means its tax treatment is classified under IRC §301(c)**(2)** or IRC §301(c)**(3)**.

How IRC §959 excludes E & P distributions from gross income

Default Rule for Taxation of Distributions: IRC §301(c)	Distributions of Previously-Taxed Earnings and Profits: IRC §959	Use Basis Adjustments to Ensure No Taxable Income: IRC §961
It's a distribution from E & P, so it is a dividend. IRC §301(c)(1).	It's *not* a dividend. The end. IRC §959(d).	Increase basis for earnings and profits included in gross income. IRC §961(a).
If it's not a dividend, it is a return of capital, reducing basis to zero. IRC §301(c)(2).	IRC §959 is silent. But since this is the last man standing, the answer must be here, somehow.	Decrease basis for distributions received from earnings and profits. IRC §961(b).
If it's not a dividend and basis is zero, it's capital gain. IRC §301(c)(3).	It is excluded from gross income, so it can't be capital gain. IRC §959(a).	Offsetting basis adjustments protect the distribution from current or future income tax.

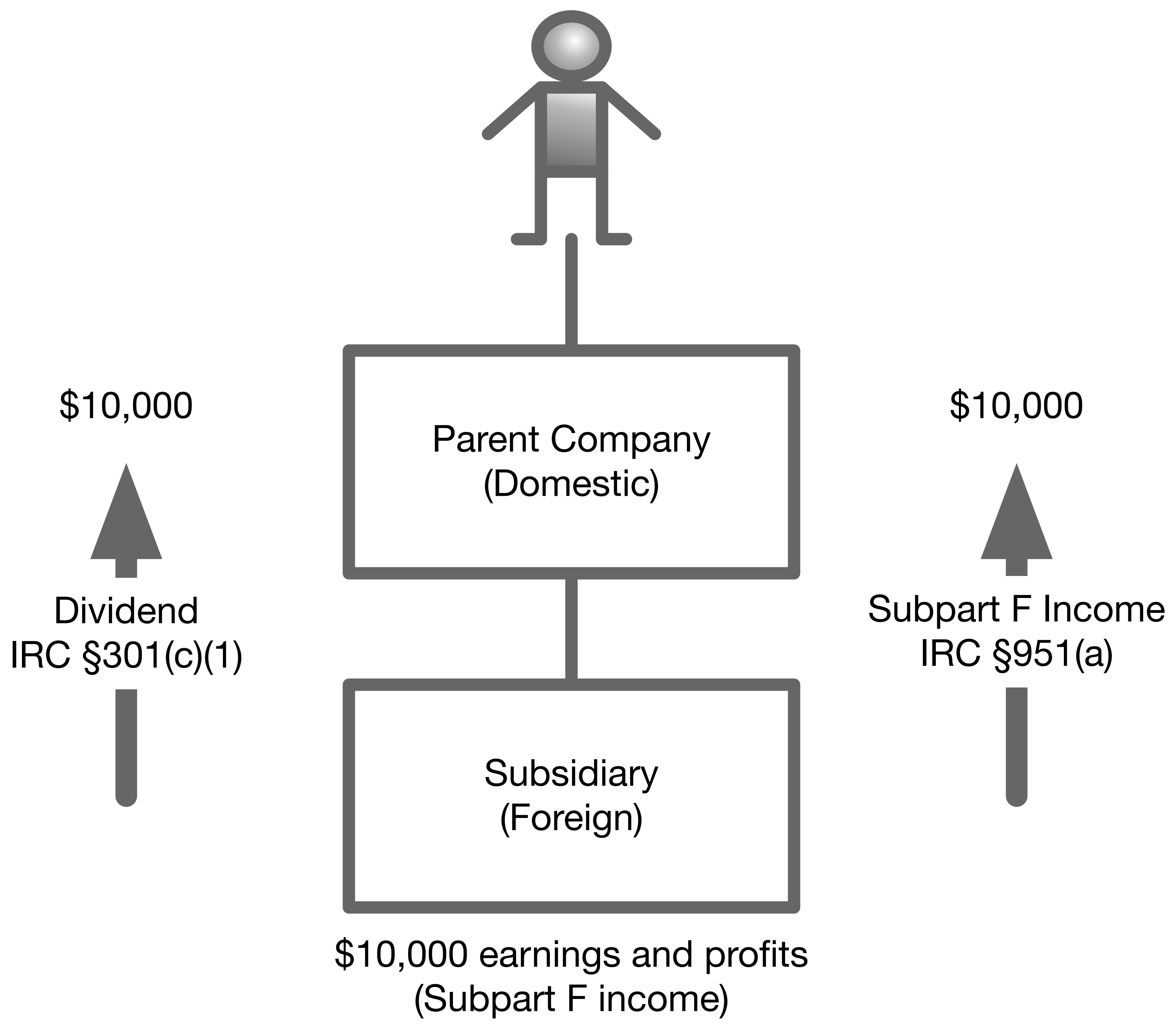
Subchapter C respected: normal rule for dividends

- A distribution from earnings and profits is dividend income to the shareholder. IRC §301(c)(1).
- Ignore dividend-received deductions (IRC §245A) for now. I deal with that later.
- Parent's taxable income: $10,000.
- Parent's basis in Subsidiary stock is unaffected.



Subchapter C overridden: Subsidiary’s income taxed to Parent

- Normally, we do not include the corporation’s profits in a shareholder’s taxable income.
- Override: IRC §951(a) includes the Subsidiary’s “subpart F income” in the Parent’s gross income.
- Parent’s basis in Subsidiary stock is increased by the $10,000 subpart F income inclusion. IRC §961(a).
- Parent’s taxable income: $10,000 dividend + $10,000 subpart F inclusion = $20,000.



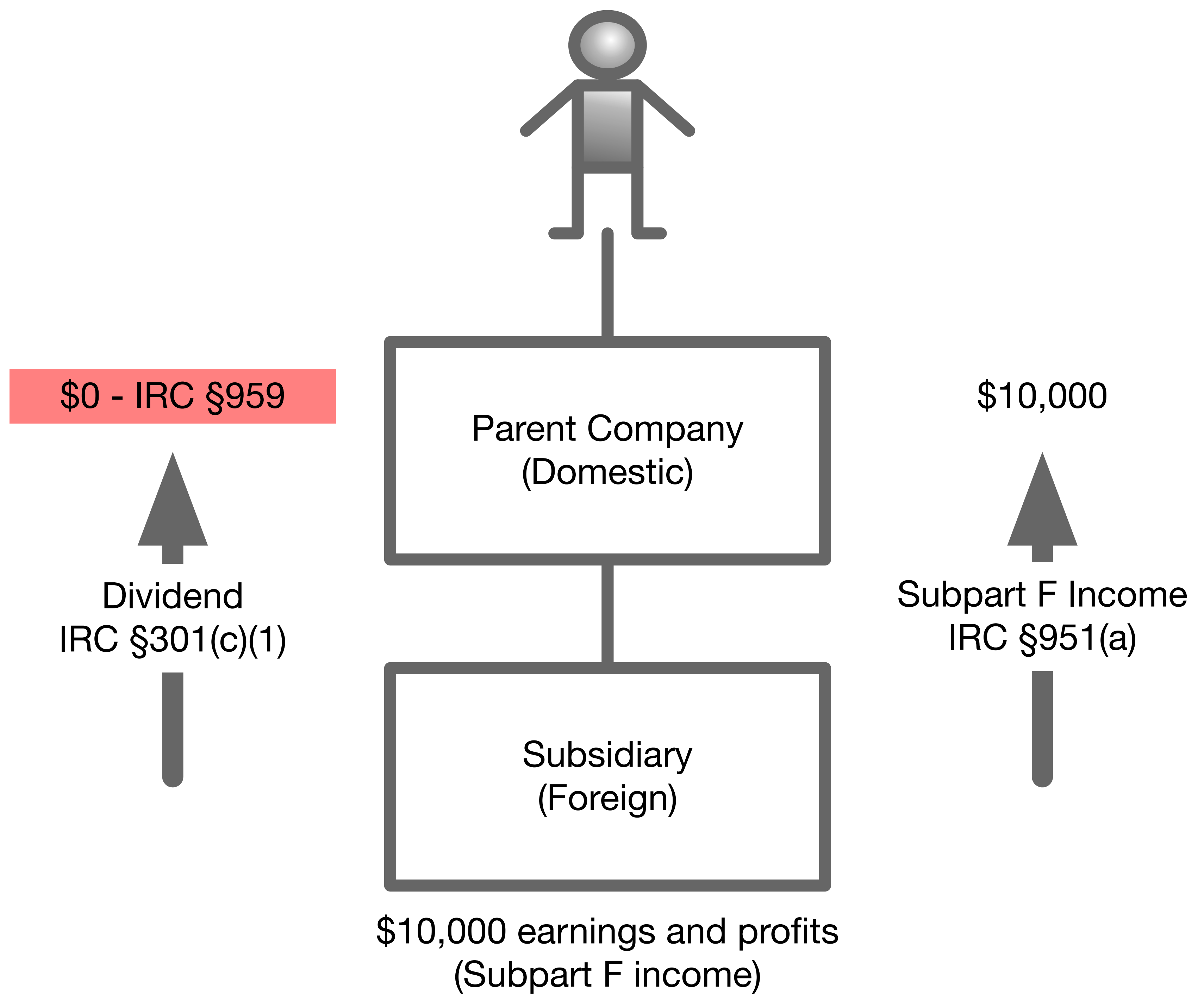
Distribution excluded from income with offsetting basis adjustment

- The dividend is declared “not a dividend”. IRC §959(d). That eliminates **IRC §301(c)(1)** treatment.

- It isn’t gross income, either. IRC §959(a). That eliminates capital gain treatment under **IRC §301(c)(3)**.

- Parent’s distribution is taxed under **IRC §301(c)(2)**. Parent’s basis in Subsidiary stock is increased by the $10,000 subpart F income inclusion (IRC §961(a)) and decreased by the excluded IRC §959 distribution. IRC §961(b). Result: basis unchanged by the distribution.

- Parent’s taxable income: $0 dividend + $10,000 subpart F inclusion = $10,000.



IRC §959(a) creates a book/tax income difference

Schedule M-3 (Form 1120) (Rev. 12-2019) Page **2**

Name of corporation (common parent, if consolidated return)	**Employer identification number**

Check applicable box(es): **(1)** ☐ Consolidated group **(2)** ☐ Parent corp **(3)** ☐ Consolidated eliminations **(4)** ☐ Subsidiary corp **(5)** ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: **(6)** ☐ 1120 group **(7)** ☐ 1120 eliminations

Name of subsidiary (if consolidated return)	**Employer identification number**

Part II **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

Income (Loss) Items (Attach statements for lines 1 through 12)	**(a)** Income (Loss) per Income Statement	**(b)** Temporary Difference	**(c)** Permanent Difference	**(d)** Income (Loss) per Tax Return
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed . . .				
3 Subpart F, QEF, and similar income inclusions . .				
4 Gross-up for foreign taxes deemed paid				
5 Gross foreign distributions previously taxed . . .				

3. Gross Income Exclusion With Section 962 Elections: (IRC §962(d))

Section 962: the 30 second explanation

- Individuals can elect to have subpart F income and global intangible low-taxed income taxed using corporate taxation principles.

  - Advantages: lower income tax rate (21%), the IRC §250 deduction (50% of the income inclusion amounts), and the ability to claim the indirect foreign tax credit.

  - Disadvantage: the IRC §959 gross income exclusion is replaced with a far less generous exclusion.

Gross income exclusion for distributions in IRC §962 elections

- Use the IRC §962(d) gross income exclusion instead of IRC §959.
  - The gross income exclusion: the **actual income tax paid** on the IRC §951(a) and IRC §951A(a) inclusions.
  - The rest of the distribution is included in your gross income as dividend income.

If you make a Section 962 election, IRC §959 is not applicable

- “The earnings and profits of a foreign corporation attributable to amounts which were included in the gross income of a United States shareholder under section 951(a) and with respect to which an election under this section applied shall, when such earnings and profits are distributed, **notwithstanding the provisions of section 959(a)(1),** be included in gross income to the extent that such earnings and profits so distributed exceed the amount of tax paid under this chapter on the amounts to which such election applied.”

- IRC §962(d).

IRC §962(d): gross income exclusion amount = income tax paid

- "The earnings and profits of a foreign corporation attributable to amounts which were included in the gross income of a United States shareholder under section 951(a) and with respect to which an election under this section applied shall, when such earnings and profits are distributed, notwithstanding the provisions of section 959(a)(1), be included in gross income **to the extent that such earnings and profits so distributed exceed the amount of tax paid under this chapter on the amounts to which such election applied**."

- IRC §962(d).

How to calculate the gross income inclusion under IRC §962(d)

Gross income inclusion - IRC §951(a)	10,000
Tax rate	21%
Income tax liability	2,100
Dividend received	10,000
Less gross income exclusion IRC - §962(d)	(2,100)
Gross income inclusion (dividend) - IRC §962(d)	7,900

4. Gross Income Exclusion: Net Investment Income Tax

IRC §959 does not eliminate net investment income tax

- A distribution from previously-taxed earnings and profits is treated as dividend income for net investment income tax purposes even if it is not treated as dividend income for income tax purposes because of IRC §959.
  Reg. §1.1411-10(c)(1)(i)(A).

- Income tax rules are in Title 26, Subtitle A, Chapter 1. Net investment income tax rules are in Title 26, Subtitle A, Chapter 2A.

- The definition of "taxable income" for income tax purposes (including the IRC §959(d) "this is not a dividend" rule) does not apply to net investment income tax. The definition of "net investment income" does not include a rule analogous to IRC §959.

5. Dividend-Received Deduction (IRC §245A)

The “who?” and “what?” of the IRC §245A dividend-received deduction

- Who can use the IRC §245A dividend-received deduction?
  - Domestic C corporations that are United States shareholders of “specified 10-percent foreign corporations.”
- What does it apply to?
  - Dividends from untaxed (by the United States) earnings and profits of a foreign corporation that has a domestic corporation as a 10% (or more) shareholder.

IRC §245A(a) - the dividend-received deduction

- IF
  - "In the case of any dividend received from a specified 10-percent owned foreign corporation by a domestic corporation which is a United States shareholder with respect to such foreign corporation,
- THEN
  - there shall be allowed as a deduction an amount equal to the foreign-source portion of such dividend."

Dividend-received deduction: Form 1120, Schedule C, Line 13(c)

		(a)	(b)	(c)
13	Foreign-source portion of dividends received from a specified 10%-owned foreign corporation (excluding hybrid dividends) (see instructions)		100	
14	Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, 12, or 13 (including any hybrid dividends)			
15	Reserved for future use			
16a	Subpart F inclusions derived from the sale by a controlled foreign corporation (CFC) of the stock of a lower-tier foreign corporation treated as a dividend (attach Form(s) 5471) (see instructions)		100	
b	Subpart F inclusions derived from hybrid dividends of tiered corporations (attach Form(s) 5471) (see instructions)			
c	Other inclusions from CFCs under subpart F not included on line 16a, 16b, or 17 (attach Form(s) 5471) (see instructions)			
17	Global Intangible Low-Taxed Income (GILTI) (attach Form(s) 5471 and Form 8992) . .			
18	Gross-up for foreign taxes deemed paid			
19	IC-DISC and former DISC dividends not included on line 1, 2, or 3			
20	Other dividends			
21	Deduction for dividends paid on certain preferred stock of public utilities			
22	Section 250 deduction (attach Form 8993)			
23	**Total dividends and inclusions.** Add column (a), lines 9 through 20. Enter here and on page 1, line 4			
24	**Total special deductions.** Add column (c), lines 9 through 22. Enter here and on page 1, line 29b			

Form **1120** (2022)

Dividend-received deduction rules

IRC Section	
243(e)	Dividend-received deduction allowed when a foreign corporation pays a dividend from earnings and profits accumulated by a **predecessor domestic corporation**.
245	Dividend-received deduction for a foreign corporation dividend attributable to **U.S. source earnings and profits**.
245A	100% dividend-received deduction for distribution received from a foreign corporation attributable to its **foreign-source earnings and profits**.
250	*Not a dividend-received deduction; it is an offsetting deduction against global intangible low-taxed income and foreign-derived intangible income.*

7. Example

The CFC's overly-simple financial statement

- P & L
  - $10,000 of gross income, zero expenses*
- Balance sheet
  - $40,000 of depreciable assets, $40,000 of owner's equity

**Yes I know. How can you have depreciable assets and no depreciation expense? Humor me. The example works fine even though it's wrong.*

Form 5471, Schedule I-1

				Functional Currency	Conversion Rate	U.S. Dollars
1	Gross income (see instructions if cost of goods sold exceed gross receipts)		1	10,000		
2	Exclusions (see instructions if cost of goods sold exceed gross receipts)					
a	Effectively connected income	2a —				
b	Subpart F income	2b —				
c	High-tax exception income per section 954(b)(4)	2c —				
d	Related party dividends	2d —				
e	Foreign oil and gas extraction income	2e —				
3	Total exclusions (combine lines 2a through 2e)		3	0		
4	Gross income less total exclusions (line 1 minus line 3) (see instructions)		4	10,000		
5	Deductions properly allocable to amount on line 4		5	0		
6	Tested income (loss) (line 4 minus line 5) (see instructions)		6	10,000		10,000
7	Tested foreign income taxes		7	0		0
8	Qualified business asset investment (QBAI)		8	40,000		40,000
9a	Interest expense included on line 5	9a —				
b	Qualified interest expense	9b —				
c	Tested loss QBAI amount	9c —				
d	Tested interest expense (line 9a minus the sum of line 9b and line 9c). If zero or less, enter -0-		9d	0		0
10a	Interest income included in line 4	10a —				
b	Qualified interest income	10b —				
c	Tested interest income (line 10a minus line 10b). If zero or less, enter -0-		10c	0		0

I DID NOT ADD DEPRECIATION ON LINE 5 BECAUSE I WANT THE EXAMPLE TO BE SIMPLE

For Paperwork Reduction Act Notice, see instructions. Cat. No. 71400M **Schedule I-1 (Form 5471) (Rev. 12-2021)**

- $10,000 of tested income (to calculate the global intangible low-taxed income inclusion)
- $40,000 of depreciable assets on the balance sheet (to calculate net deemed tangible income return)

Calculate IRC §951A inclusion, step 1: Form 8992, Schedule A

SCHEDULE A (Form 8992)
(Rev. December 2022)
Department of the Treasury
Internal Revenue Service

Schedule of Controlled Foreign Corporation (CFC) Information To Compute Global Intangible Low-Taxed Income (GILTI)

Go to *www.irs.gov/Form 8992* for instructions and the latest information.

OMB No. 1545-0123

Attachment Sequence No. **992A**

Name of person filing this schedule | **A** Identifying number

Name of U.S. shareholder | **B** Identifying number

(a) Name of CFC	(b) EIN or Reference ID	**Calculations for Net Tested Income** (see instructions)								**GILTI Allocated to Tested Income CFCs** (see instructions)	
		(c) Tested Income	(d) Tested Loss	(e) Pro Rata Share of Tested Income	(f) Pro Rata Share of Tested Loss	(g) Pro Rata Share of Qualified Business Asset Investment (QBAI)	(h) Pro Rata Share of Tested Loss QBAI Amount	(i) Pro Rata Share of Tested Interest Income	(j) Pro Rata Share of Tested Interest Expense	(k) GILTI Allocation Ratio (Divide Col. (e) by Col. (e), Line 1 Total)	(l) GILTI Allocated to Tested Income CFCs (Multiply Form 8992, Part II, Line 5, by Col. (k))
		10,000	( )	10,000	( )	40,000	( )	0	0	1	6,000
			( )		( )		( )				
			( )		( )		( )				
			( )		( )		( )				
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			( )		( )		( )				
			( )		( )		( )				
			( )		( )		( )				
1. Totals (see instructions) . .		10,000	( )	10,000	( )	40,000	( )	0	0		6,000

Totals on line 1 should include the totals from any continuation sheets.

For Paperwork Reduction Act Notice, see Instructions for Form 8992. Cat. No. 71396P **Schedule A (Form 8992) (Rev. 12-2022)**

- Schedule A is used to generate totals from multiple CFCs. Since there is only one CFC in this example, it's simple.
- But we have to prepare it anyway, because Form 8992 asks you to use numbers from Schedule A to compute Global Intangible Low-Taxed Income.

Calculate IRC §951A inclusion, step 2: Form 8992, Part II, Line 5

Part II **Calculation of Global Intangible Low-Taxed Income (GILTI)**

1	Net CFC Tested Income. Enter amount from Part I, line 3			1	10,000
2	Deemed Tangible Income Return (DTIR) If the U.S. shareholder is not a member of a U.S. consolidated group, multiply the total from Schedule A (Form 8992), line 1, column (g), by 10% (0.10). If the U.S. shareholder is a member of a U.S. consolidated group, enter the amount from Schedule B (Form 8992), Part II, column (i), that pertains to the U.S. shareholder.			2	4,000
3a	Sum of Pro Rata Share of Tested Interest Expense If the U.S. shareholder is not a member of a U.S. consolidated group, enter the total from Schedule A (Form 8992), line 1, column (j). If the U.S. shareholder is a member of a U.S. consolidated group, leave line 3a blank.	3a	0		
b	Sum of Pro Rata Share of Tested Interest Income If the U.S. shareholder is not a member of a U.S. consolidated group, enter the total from Schedule A (Form 8992), line 1, column (i). If the U.S. shareholder is a member of a U.S. consolidated group, leave line 3b blank.	3b	0		
c	Specified Interest Expense If the U.S. shareholder is not a member of a U.S. consolidated group, subtract line 3b from line 3a. If zero or less, enter -0-. If the U.S. shareholder is a member of a U.S. consolidated group, enter the amount from Schedule B (Form 8992), Part II, column (m), that pertains to the U.S. shareholder.			3c	0
4	Net DTIR. Subtract line 3c from line 2. If zero or less, enter -0-			4	4,000
5	GILTI. Subtract line 4 from line 1. If zero or less, enter -0-			5	6,000

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 37816Y Form **8992** (Rev. 12-2022)

- Line 4: earnings and profits that are not included in gross income by IRC §951A. The IRC §245A dividend-received deduction will apply.
- Line 5: Global Intangible Low-Taxed Income. IRC §959 applies.

Form 5471, Schedule H: current earnings and profits

			Net Additions	Net Subtractions		
1	Current year net income or (loss) per foreign books of account				1	10,000
2	Net adjustments made to line 1 to determine current earnings and profits according to U.S. financial and tax accounting standards (see instructions):					
a	Capital gains or losses	2a				
b	Depreciation and amortization	2b				
c	Depletion	2c				
d	Investment or incentive allowance	2d				
e	Charges to statutory reserves	2e				
f	Inventory adjustments	2f				
g	Income taxes (see Schedule E, Part I, Section 1, line 6, column (m), and Part III, line 3, column (i))	2g				
h	Foreign currency gains or losses	2h				
i	Other (attach statement)	2i				
3	Total net additions	3				
4	Total net subtractions	4				
5a	Current earnings and profits (line 1 plus line 3 minus line 4)				5a	10,000
b	DASTM gain or (loss) for foreign corporations that use DASTM (see instructions)				5b	
c	Combine lines 5a and 5b and enter the result on line 5c. Then enter on lines 5c(i), 5c(ii), and 5c(iii)(A) through 5c(iii)(D) the portion of the line 5c amount with respect to the categories of income shown on those lines				5c	10,000
	(i) General category (enter amount on applicable Schedule J, Part I, line 3, column (a))		5c(i)	10,000		
	(ii) Passive category (enter amount on applicable Schedule J, Part I, line 3, column (a))		5c(ii)			
	(iii) Section 901(j) category: (A) Enter the country code of the sanctioned country ▶ ______ and enter the line 5c amount with respect to the sanctioned country on this line 5c(iii)(A) and on the applicable Schedule J, Part I, line 3, column (a)		5c(iii)(A)			
	(B) Enter the country code of the sanctioned country ▶ ______ and enter the line 5c amount with respect to the sanctioned country on this line 5c(iii)(B) and on the applicable Schedule J, Part I, line 3, column (a)		5c(iii)(B)			
	(C) Enter the country code of the sanctioned country ▶ ______ and enter the line 5c amount with respect to the sanctioned country on this line 5c(iii)(C) and on the applicable Schedule J, Part I, line 3, column (a)		5c(iii)(C)			
	(D) Enter the country code of the sanctioned country ▶ ______ and enter the line 5c amount with respect to the sanctioned country on this line 5c(iii)(D) and on the applicable Schedule J, Part I, line 3, column (a)		5c(iii)(D)			
d	Current earnings and profits in U.S. dollars (line 5c translated at the average exchange rate, as defined in section 989(b)(3) and the related regulations (see instructions))				5d	10,000
e	Enter exchange rate used for line 5d ▶			1		

For Paperwork Reduction Act Notice, see instructions. Cat. No. 71399W **Schedule H (Form 5471) (Rev. 12-2021)**

- We will follow the trail of earnings and profits. Schedule H shows current earnings and profits.
- The CFC had $10,000 of gross revenue and $0 of expenses. That’s Line 1.
- No adjustments apply, so current earnings and profits = $10,000.

Form 5471, Schedule J: accumulated earnings & profits

Part I **Accumulated E&P of Controlled Foreign Corporation**

☐ Check the box if person filing return does not have all U.S. shareholders' informatio

Important: Enter amounts in functional currency.

		(a) Post-2017 E&P Not Previously Taxed (post-2017 section 959(c)(3) balance)	Undis (post-1 section
1a	Balance at beginning of year (as reported on prior year Schedule J)	0	
b	Beginning balance adjustments (attach statement)	0	
c	Adjusted beginning balance (combine lines 1a and 1b)	0	
2a	Reduction for taxes unsuspended under anti-splitter rules	0	
b	Disallowed deduction for taxes suspended under anti-splitter rules	0	
3	Current year E&P (or deficit in E&P) (enter amount from applicable line 5c of Schedule H)	10,000	
4	E&P attributable to distributions of previously taxed E&P from lower-tier foreign corporation . . .	0	
5a	E&P carried over in nonrecognition transaction .	0	
b	Reclassify deficit in E&P as hovering deficit after nonrecognition transaction	0	
6	Other adjustments (attach statement)	0	
7	Total current and accumulated E&P (combine lines 1c through 6)	10,000	
8	Amounts reclassified to section 959(c)(2) E&P from section 959(c)(3) E&P	(6000)	
9	Actual distributions	(4,000)	
10	Amounts reclassified to section 959(c)(1) E&P from section 959(c)(2) E&P	0	
11	Amounts included as earnings invested in U.S. property and reclassified to section 959(c)(1) E&P (see instructions)	0	
12	Other adjustments (attach statement)	0	
13	Hovering deficit offset of undistributed post-transaction E&P (see instructions)	0	
14	Balance at beginning of next year (combine lines 7 through 13)	0	

For Paperwork Reduction Act Notice, see the Instructions for Form 5471.

- Column (a): untaxed E & P.
- Line 3: current E & P.
- Line 8: reclassify E & P attributable to global intangible low-taxed income to previously-taxed earnings and profits because it got taxed.
- Line 9: earnings and profits attributable to Net Determinable Low-Taxed Income is distributed.
- Line 14: year-end untaxed E & P = zero.

Form 5471, Schedule J, page 2: the other half of the numbers

	(e) Previously Taxed E&P (see instructions)			**(f)** Total Section 964(a) E&P (combine columns (a), (b), (c), and (e)(i) through (e)(x))
	(viii) Section 951A PTEP	***(ix)*** Section 245A(d) PTEP	***(x)*** Section 951(a)(1)(A) PTEP	
1a				
b				
c				
2a				
b				
3				10,000
4				
5a				
b				
6		E+P MOVED FROM UNTAXED TO PTEP		
7				10,000
8	6,000			0
9	(6,000)			(10,000)
10		PTEP DISTRIBUTION		
11			PTEP DISTRIBUTION	6,000
12			UNTAXED E+P	4,000
13				
14	0			0

Schedule J (Form 5471) (Rev. 12-2020)

Form 5471, Schedule P: shareholder's accumulated E & P

Schedule P (Form 5471) (Rev. 12-2020) Page **4**

Part II **Previously Taxed E&P in U.S. Dollars** *(continued)*

	(d) Reclassified section 951A PTEP	(e) Reclassified section 245A(d) PTEP	(f) Section 965(a) PTEP	(g) Section 965(b) PTEP	(h) Section 951A PTEP	(i) Section 245A(d) PTEP	(j) Section 951(a)(1)(A) PTEP	(k) Total
1a								
b								
c								
2								
3								
4								
5								
6								
7								
8	6,000							6,000
9	(6,000)							(6,000)
10								
11								
12	0							0

Schedule P (Form 5471) (Rev. 12-2020)

Form 5471, Schedule R: the distribution detail

- $6,000 — distribution from previously-taxed earnings and profits (IRC §951A income), excluded from gross income by IRC §959. Report the book/tax income difference on Schedule M-1 or Schedule M-3.

- $4,000 — distribution from untaxed earnings and profits (the Net Deemed Tangible Income Return portion of tested income), generates an offsetting dividend-received deduction under IRC §245A. This will be reported on Form 1120, Schedule C.

Form 5471, Schedule R: Distributions

SCHEDULE R (Form 5471)
(December 2020)
Department of the Treasury
Internal Revenue Service

Distributions From a Foreign Corporation

▶ Attach to Form 5471.
▶ Go to *www.irs.gov/Form5471* for instructions and the latest information.

OMB No. 1545-0123

Name of person filing Form 5471		Identifying number
Name of foreign corporation	EIN (if any)	Reference ID number (see instructions)

	(a) Description of distribution	(b) Date of distribution	(c) Amount of distribution in foreign corporation's functional currency	(d) Amount of E&P distribution in foreign corporation's functional currency
1	PTEP DISTRIBUTION EXCLUDED FROM		6,000	6,000
2	GROSS INCOME — IRC SECTION 959(a)			
3				
4	TAXABLE DIVIDEND ELIGIBLE FOR		4,000	4,000
5	IRC SECTION 245 DIVIDEND-RECEIVED			
6	DEDUCTION			

Form 1120, Schedule C: distribution, dividend-received deduction

		(a)	(b)	(c)
13	Foreign-source portion of dividends received from a specified 10%-owned foreign corporation (excluding hybrid dividends) (see instructions)	4,000	100	4,000
14	Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, 12, or 13 (including any hybrid dividends)			
15	Reserved for future use			
16a	Subpart F inclusions derived from the sale by a controlled foreign corporation (CFC) of the stock of a lower-tier foreign corporation treated as a dividend (attach Form(s) 5471) (see instructions)		100	
b	Subpart F inclusions derived from hybrid dividends of tiered corporations (attach Form(s) 5471) (see instructions)			
c	Other inclusions from CFCs under subpart F not included on line 16a, 16b, or 17 (attach Form(s) 5471) (see instructions)			
17	Global Intangible Low-Taxed Income (GILTI) (attach Form(s) 5471 and Form 8992) . .	6,000		
18	Gross-up for foreign taxes deemed paid			
19	IC-DISC and former DISC dividends not included on line 1, 2, or 3			
20	Other dividends			
21	Deduction for dividends paid on certain preferred stock of public utilities			
22	Section 250 deduction (attach Form 8993)			
23	**Total dividends and inclusions.** Add column (a), lines 9 through 20. Enter here and on page 1, line 4	10,000		
24	**Total special deductions.** Add column (c), lines 9 through 22. Enter here and on page 1, line 29b			4,000

Form **1120** (2022)

Form 1120, Schedule M-3: Book/Tax Reconciliation for IRC §959

Schedule M-3 (Form 1120) (Rev. 12-2019) Page **2**

Name of corporation (common parent, if consolidated return)	**Employer identification number**

Check applicable box(es): **(1)** ☐ Consolidated group **(2)** ☐ Parent corp **(3)** ☐ Consolidated eliminations **(4)** ☐ Subsidiary corp **(5)** ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: **(6)** ☐ 1120 group **(7)** ☐ 1120 eliminations

Name of subsidiary (if consolidated return)	**Employer identification number**

Part II **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

Income (Loss) Items (Attach statements for lines 1 through 12)	**(a)** Income (Loss) per Income Statement	**(b)** Temporary Difference	**(c)** Permanent Difference	**(d)** Income (Loss) per Tax Return
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed . . .				
3 Subpart F, QEF, and similar income inclusions . .				
4 Gross-up for foreign taxes deemed paid				
5 Gross foreign distributions previously taxed . . .	6,000		(6,000)	

7. Conclusion

Summary

- There is a double-taxation problem for U.S. shareholders of foreign corporations.
- One taxpayer (the shareholder) is taxed on net income of another taxpayer (the controlled foreign corporation). IRC §§951(a), 951A(a).
- Later distributions from the controlled foreign corporation from previously-taxed earnings and profits will be received tax-free by the U.S. shareholder. IRC §959.
- C corporations receive distributions of untaxed earnings and profits tax-free by enjoying a 100% dividend-received deduction. IRC §245A.
- The work, as always, is in the boring place: tracking earnings and profits.

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