

Internal Revenue Service, Treasury

§ 1.561-1

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 expenses 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
	215,000
Add:	
Distributive share of undistributed income of the other foreign personal holding company (considered as a dividend)	85,000
	300,000
<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
	120,000
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
Add (see section 556(b)):	
Contributions deductible in computing taxable income under section 63	5,000
Excess property expenses and depreciation over amount of rent received for use of property (\$105,000 - \$5,000)	100,000
	105,000
Deduct (see section 556(b)):	
Federal income taxes	59,125
Contributions (within the percentage limitations specified in section 170(b)(1) (A) and (B), determined under the rules provided in section 556(b)(2))	15,000
	74,125
Net additions under section 556(b)	30,875
Taxable income, as adjusted under section 556(b)	210,875
Less: Deduction for dividends paid (see section 561)	50,000
	160,875

DEDUCTION FOR DIVIDENDS PAID

§ 1.561-1 Deduction for dividends paid.

(a) The deduction for dividends paid is applicable in determining accumulated taxable income under section 535, undistributed personal holding company income under section 545, undistributed foreign personal holding company income under section 556, investment company taxable income under section 852, and real estate investment trust taxable income under section 857. The deduction for dividends paid includes:

(1) The dividends paid during the taxable year;

(2) The consent dividends for the taxable year, determined as provided in section 565; and

(3) In the case of a personal holding company, the dividend carryover computed as provided in section 564.

(b) For dividends for which the dividends paid deduction is allowable, see section 562 and § 1.562-1. As to when dividends are considered paid, see § 1.561-2.

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