

Internal Revenue Service, Treasury

§ 1.851-1

Section 1.861-3 also issued under 26 U.S.C. 863(a).

Section 1.861-9 also issued under 26 U.S.C. 863(a), 26 U.S.C. 864(e), 26 U.S.C. 865(i), and 26 U.S.C. 7701(f).

Section 1.861-10(e) also issued under 26 U.S.C. 863(a), 26 U.S.C. 864(e), 26 U.S.C. 865(i) and 26 U.S.C. 7701(f).

Section 1.861-11 also issued under 26 U.S.C. 863(a), 26 U.S.C. 864(e), 26 U.S.C. 865(i), and 26 U.S.C. 7701(f).

Section 1.861-14 also issued under 26 U.S.C. 863(a), 26 U.S.C. 864(e), 26 U.S.C. 865(i), and 26 U.S.C. 7701(f).

Sections 1.861-8T through 1.861-14T also issued under 26 U.S.C. 863(a), 26 U.S.C. 864(e), 26 U.S.C. 865(i) and 26 U.S.C. 7701(f).

Section 1.863-1 also issued under 26 U.S.C. 863(a).

Section 1.863-2 also issued under 26 U.S.C. 863.

Section 1.863-3 also issued under 26 U.S.C. 863(a) and (b), and 26 U.S.C. 936(h).

Section 1.863-4 also issued under 26 U.S.C. 863.

Section 1.863-6 also issued under 26 U.S.C. 863.

Section 1.863-7 is issued under 26 U.S.C. 863(a).

Section 1.864-5 also issued under 26 U.S.C. 7701(l).

Section 1.864-8T also issued under 26 U.S.C. 864(d)(8).

Section 1.865-1T also issued under 26 U.S.C. 865(j)(1).

Section 1.865-2 also issued under 26 U.S.C. 865(j)(1).

Section 1.865-2T also issued under 26 U.S.C. 865(j)(1).

Section 1.871-1 also issued under 26 U.S.C. 7701(l).

Section 1.871-7 also issued under 26 U.S.C. 7701(l).

Section 1.871-9 also issued under 26 U.S.C. 7701(b)(11).

Section 1.881-2 also issued under 26 U.S.C. 7701(l).

Section 1.881-3 also issued under 26 U.S.C. 7701(l).

Section 1.881-4 also issued under 26 U.S.C. 7701(l).

Section 1.882-5 also issued under 26 U.S.C. 882, 26 U.S.C. 864(e), 26 U.S.C. 988(d), and 26 U.S.C. 7701(l).

Section 1.884-0 also issued under 26 U.S.C. 884 (g).

Section 1.884-1 also issued under 26 U.S.C. 884 (g).

Section 1.884-1 (d) also issued under 26 U.S.C. 884 (c) (2) (A).

Section 1.884-1 (d) (13) (i) also issued under 26 U.S.C. 884 (c) (2).

Section 1.884-1 (e) also issued under 26 U.S.C. 884 (c) (2) (B).

Section 1.884-2 also issued under 26 U.S.C. 884(g).

Section 1.884-2T also issued under 26 U.S.C. 884 (g).

Section 1.884-4 also issued under 26 U.S.C. 884 (g).

Section 1.884-5 also issued under 26 U.S.C. 884 (g).

Section 1.884-5 (e) and (f) also issued under 26 U.S.C. 884 (e) (4) (C).

Sections 1.892-1T through 1.892-7T also issued under 26 U.S.C. 892(c).

Section 1.894-1 also issued under 26 U.S.C. 894 and 7701(l).

Sections 1.897-5T, 1.897-6T and 1.897-7T also issued under 26 U.S.C. 897 (d), (e), (g) and (j) and 26 U.S.C. 367(e)(2).

Sections 1.902-1 and 902-2 also issued under 26 U.S.C. 902(c)(7).

Sections 1.904-4 through 1.904-7 also issued under 26 U.S.C. 904(d)(5).

Section 1.904(b)-3 also issued under 26 U.S.C. 7701(b)(11).

Section 1.904(f)-(2) also issued under 26 U.S.C. 904 (f)(3)(b).

Sections 1.904-4 through 1.904-7 also issued under 26 U.S.C. 904(d)(5).

Section 1.904(i)-1 also issued under 26 U.S.C. 904(i).

Sections 1.905-3T and 1.905-4T also issued under 26 U.S.C. 989(c)(4).

Section 1.907(b)-1 is also issued under 26 U.S.C. 907(b).

Section 1.907(b)-1T also issued under 26 U.S.C. 907(b).

SOURCE: T.D. 6500, 25 FR 11910, Nov. 26, 1960; 25 FR 14021, Dec. 31, 1960, unless otherwise noted.

REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS

§ 1.851-1 Definition of regulated investment company.

(a) *In general.* The term “regulated investment company” is defined to mean any domestic corporation (other than a personal holding company as defined in section 542) which meets (1) the requirements of section 851(a) and paragraph (b) of this section, and (2) the limitations of section 851(b) and § 1.851-2. As to the definition of the term “corporation”, see section 7701(a)(3).

(b) *Requirement.* To qualify as a regulated investment company, a corporation must be:

(1) Registered at all times during the taxable year, under the Investment Company Act of 1940, as amended (15 U.S.C. 80a-1 to 80b-2), either as a management company or a unit investment trust, or

(2) A common trust fund or similar fund excluded by section 3(c)(3) of the Investment Company Act of 1940 (15 U.S.C. 80a-3(c)) from the definition of "investment company" and not included in the definition of "common trust fund" by section 584(a).

§ 1.851-2 Limitations.

(a) *Election to be a regulated investment company.* Under the provisions of section 851(b)(1), a corporation, even though it satisfies the other requirements of part I, subchapter M, chapter 1 of the Code, for the taxable year, will not be considered a regulated investment company for such year, within the meaning of such part I, unless it elects to be a regulated investment company for such taxable year, or has made such an election for a previous taxable year which began after December 31, 1941. The election shall be made by the taxpayer by computing taxable income as a regulated investment company in its return for the first taxable year for which the election is applicable. No other method of making such election is permitted. An election once made is irrevocable for such taxable year and all succeeding taxable years.

(b) *Gross income requirement—(1) General rule.* Section 851(b) (2) and (3) provides that (i) at least 90 percent of the corporation's gross income for the taxable year must be derived from dividends, interest, and gains from the sale or other disposition of stocks or securities, and (ii) less than 30 percent of its gross income must have been derived from the sale or other disposition of stock or securities held for less than three months. In determining the gross income requirements under section 851(b) (2) and (3), a loss from the sale or other disposition of stock or securities does not enter into the computation. A determination of the period for which stock or securities have been held shall be governed by the provisions of section 1223 insofar as applicable.

(2) *Special rules.* (i) For purposes of section 851(b)(2), there shall be treated as dividends amounts which are included in gross income for the taxable year under section 951(a)(1)(A)(i) to the extent that (a) a distribution out of a foreign corporation's earnings and profits of the taxable year is not in-

cluded in gross income by reason of section 959 (a)(1), and (b) the earnings and profits are attributable to the amounts which were so included in gross income under section 951(a)(1)(A)(i). For allocation of distributions to earnings and profits of foreign corporations, see § 1.959-3. The provisions of this subparagraph shall apply with respect to taxable years of controlled foreign corporations beginning after December 31, 1975, and to taxable years of United States shareholders (within the meaning of section 951(b) within which or with which such taxable years of such controlled foreign corporations end.

(ii) For purposes of subdivision (i) of this subparagraph, if by reason of section 959(a)(1) a distribution of a foreign corporation's earnings and profits for a taxable year described in section 959(c)(2) is not included in a shareholder's gross income, then such distribution shall be allocated proportionately between amounts attributable to amounts included under each clause of section 951(a)(1)(A). Thus, for example, M is a United States shareholder in X Corporation, a controlled foreign corporation. M and X each use the calendar year as the taxable year. For 1977, M is required by section 951(a)(1)(a) to include \$3,000 in its gross income, \$1,000 of which is included under clause (i) thereof. In 1977, M received a distribution described in section 959(c)(2) of \$2,700 out of X's earnings and profits for 1977, which is, by reason of section 959(a)(1), excluded from M's gross income. The amount of the distribution attributable to the amount included under section 951(a)(1)(A)(i) is \$900, i.e., \$2,700 multiplied by $(\$1,000/\$3,000)$.

(c) *Diversification of investments.* (1) Subparagraph (A) of section 851(b)(4) requires that at the close of each quarter of the taxable year at least 50 percent of the value of the total assets of the taxpayer corporation be represented by one or more of the following:

- (i) Cash and cash items, including receivables;
- (ii) Government securities;
- (iii) Securities of other regulated investment companies; or