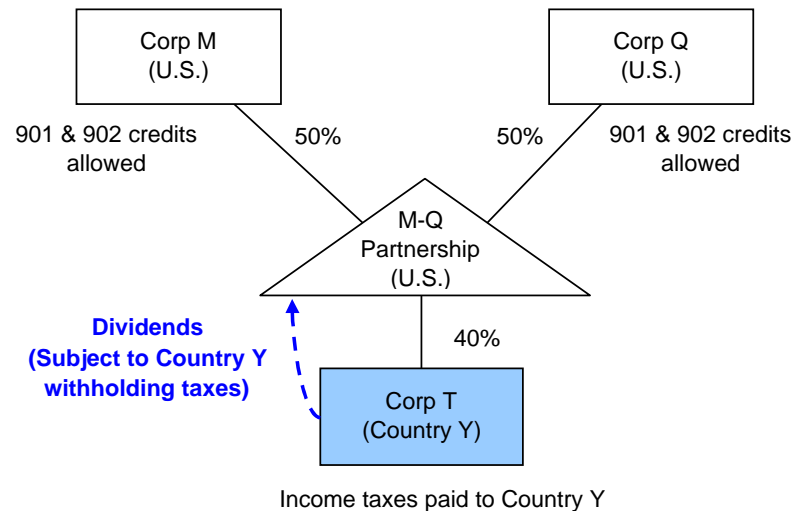


Revenue Ruling 71-141

Deemed Paid Foreign Tax Credits Through A Partnership

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Two unrelated domestic corporations, M and Q, formed and operated a partnership, M-Q, under the Delaware Uniform Partnership Act. M-Q produces and sells X products. M and Q share equally in the profits and losses. M-Q acquired 40 percent of the stock of T a corporation organized under the laws of Country Y. T also produces and sells X products. Dividends paid by T to M-Q will be subject to Country Y's withholding taxes. In addition, T pays income tax to Country Y.



Section 901(a) provides that, subject to the applicable limitation of section 904, the taxpayer may elect to credit against its United States income tax the amount of any income, war profits, and excess profits taxes paid or accrued to any foreign country, plus, in the case of a domestic corporation, the taxes deemed to have been paid under sections 902 and 960. Section 902(a) provides that a domestic corporation which owns at least 10% of the voting stock of a foreign corporation from which it receives dividends in any taxable year shall be deemed to have paid a proportionate share of the creditable foreign taxes paid by the foreign corporation.

Section 702(a) provides that, in determining income tax, each partner shall take into account separately his distributive share of the partnership's taxes, described in section 901, paid or accrued to foreign countries and to possessions of the United States. Accordingly, M and Q, are entitled to a credit under section 901(a) for their distributive shares of Country Y's taxes withheld at the source. In addition, since both M and Q are each a 50% owner of all of the assets of the partnership, each is treated as owning 20% of the stock of T and, therefore, each meets the 10% ownership rule of section 902(a). Accordingly, M and Q are entitled to a credit, under section 902, for their distributive shares of Country Y's taxes deemed to have been paid with respect to dividends received from T through M-Q. In 2004 the AJCA added a new §902(c)(7), which provides that stock owned, directly or indirectly, by or for a partnership shall be considered as being owned proportionately by its partners. This new provision does not change the status of RR 71-141. However, it makes clear that the proportionate ownership rule will apply to limited partnerships, foreign partnerships, and LLCs, as well as domestic general partnerships.