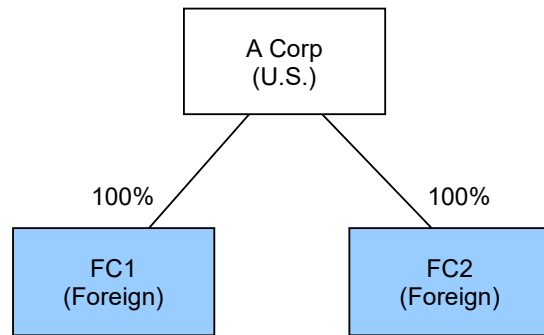


**Reg. 1.951A-2(c)(4)(iv)(B),  
Example 2**

**Impact of De Minimis & Full  
Inclusion Rules On Gross  
Tested Income**

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Gross sales / services income  
Interest income  
Total gross income before reclass

Reclass due to de minimis rule  
Reclass due to full inclusion rule  
Total gross income

	FC1		FC2	
	<u>Tested Income</u>	<u>Subpart F Income</u>	<u>Tested Income</u>	<u>Subpart F Income</u>
Gross sales / services income	290		45	
Interest income		10		150
Total gross income before reclass	290	10	45	150
Reclass due to de minimis rule	10	(10)		
Reclass due to full inclusion rule			(45)	45
Total gross income	300	0	0	195

A Corp, a domestic corporation, owns 100% of the single class of stock of FC1 and FC2, controlled foreign corporations. A Corp, FC1, and FC2 use the calendar year as their taxable year. In Year 1, FC1 has gross income of \$290x from product sales to unrelated persons within its country of incorporation, gross interest income of \$10x (an amount that is less than \$1,000,000) that does not qualify for an exception to foreign personal holding company income, and earnings and profits of \$300x. In Year 1, FC2 has gross income of \$45x for performing consulting services within its country of incorporation for unrelated persons, gross interest income of \$150x (an amount that is not less than \$1,000,000) that does not qualify for an exception to foreign personal holding company income, and earnings and profits of \$195x.

(i) FC1. In Year 1, by application of the de minimis rule of section 954(b)(3)(A) and Reg. 1.954-1(b)(1)(i), the \$10x of gross interest income earned by FC1 is not treated as foreign base company income (\$10x of gross foreign base company income is less than \$15x, the lesser of 5% of \$300x, FC's total gross income for Year 1, or \$1,000,000). Accordingly, FC1 has no subpart F income in Year 1, and A Corp has no inclusion with respect to FC1 under section 951(a)(1)(A). Under 1.951A-2(c)(4)(i), gross income described in section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii) is any item of gross income included in foreign base company income, and thus gross income described in section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii) does not include any item of gross income excluded from foreign base company income under the de minimis rule in section 954(b)(3)(A) and Reg. 1.954-1(b)(1)(i). Accordingly, FS's \$10x of gross interest income in Year 1 is not excluded from gross tested income by reason of section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii), and FC1 has \$300x (\$290x of gross sales income and \$10x of gross interest income) of gross tested income in Year 1.

(ii) FC2. In Year 1, by application of the full inclusion rule in section 954(b)(3)(B) and Reg. 1.954-1(b)(1)(ii), the \$45x of gross income earned by FC2 for performing consulting services within its country of incorporation for unrelated persons is treated as foreign base company income (\$150x of gross foreign base company income exceeds \$136.5x, which is 70% of \$195x, FC2's total gross income for Year 1). Therefore, FC2 has \$195x of foreign base company income in Year 1, including \$45x of full inclusion foreign base company income as defined in Reg. 1.954-1(b)(2), and A Corp has an inclusion of \$195x with respect to FC2 under section 951(a)(1)(A). Under Reg. 1.951A-2(c)(4)(i), gross income described in section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii) is any item of gross income included in foreign base company income, and thus gross income described in section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii) includes any item of gross income included as foreign base company income under the full inclusion rule in section 954(b)(3)(B) and Reg. 1.954-1(b)(1)(ii). Accordingly, FC2's \$45x of gross services income and its \$150x of gross interest income in Year 1 are excluded from gross tested income by reason of section 951A(c)(2)(A)(i)(II) and Reg. 1.951A-2(c)(1)(ii), and FC2 has no gross tested income in Year 1.

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