¶315 Reduction of Dividends-Received Deduction

NEW LAW EXPLAINED

Dividends-received deduction reduced.— For tax years beginning after December 31, 2017, the 70-percent dividends-received deduction is reduced to 50 percent and the 80-percent dividends-received deduction is reduced to 65 percent (Code Secs. 243(a)(1) and (c)(1), as amended by the Tax Cuts and Jobs Act).

COMMENT

The dividends-received deduction is reduced to reflect the new lower corporate tax rate of 21 percent.

KEY RATES AND FIGURES

Dividends subject to the new 50-percent dividends-received deduction will be taxed at a maximum rate of 10.5 percent (50 percent of the 21 percent new corporate tax rate). Dividends subject to the new 65-percent dividends-received deduction will be taxed at a maximum rate of 7.35 percent (35 percent of the 21 percent new corporate tax rate).

A 50-percent dividends-received deduction (65 percent in the case of dividends received from a 20-percent-owned corporation) is provided for any dividend received by a U.S. corporation from another corporation that is distributed out of earnings and profits attributable to effectively connected income received or accrued by such other corporation while it was an FSC (Code Sec. 245(c)(1)(B), as amended by the 2017 Tax Cuts Act).

In addition, the aggregate dividends-received deduction under Code Secs. 243 and 245 is limited to 50 percent of the receiving corporation's taxable income if it owns less than 20 percent of the distributing corporation, and to 65 percent of its taxable income if it owns 20 percent or more of the distributing corporation (Code Sec. 246(b)(3), as amended by the 2017 Tax Cuts Act). Also, the 50-percent dividends-received deduction (65 percent in the case of dividends received from a 20-percent owned corporation) is reduced in the case of dividends received with respect to debt-financed portfolio stock by a percentage related to the amount of debt incurred to purchase the stock (Code Sec. 246A(a)(1), as amended by the 2017 Tax Cuts Act).

Finally, for purposes of the foreign tax credit limitation, dividends from a foreign corporation are treated as income from foreign sources to the extent exceeding the amount that is 100/50th (100/65th in the case of a 20-percent owned corporation) of the amount of the deduction allowable under Code Sec. 245 (Code Sec. 861(a)(2), as amended by the 2017 Tax Cuts Act).

Effective date. The provision applies to tax years beginning after December 31, 2017 (Act Sec. 13002(f) of the Tax Cuts and Jobs Act).