6. Post-1986 foreign income taxes in Corporation A for 1992 (pre-dividend) attributable to:	
(a) Section 904(d)(1)(B) high withholding tax interest (Line 2(a) + Line 4(a) translated at the appropriate exchange rates)	\$15
(b) Section 904(d)(1)(I) general limitation income (Line 2(b) + Line 4(b) translated at the appropriate exchange rates)	\$25
7. Dividends paid to Corporation M in 1992	60u
8. Dividends paid to Corporation M in 1992 attributable to section 904(d) separate categories pursuant to §1.904–5(d):	
(a) Dividends paid to Corporation M in 1992 attributable to section 904(d)(1)(B) high withholding tax interest (Line 7 multi-	18u
plied by Line 5(a) divided by Line 5(c).	
(b) Dividends paid to Corporation M in 1992 attributable to section 904(d)(1)(I) general limitation income (Line 7 multi-	42u
plied by Line 5(b) divided by Line 5(c).	
9. Percentage of Corporation A's post-1986 undistributed earnings for 1992 paid to Corporation M attributable to:	
(a) Section 904(d)(1)(B) high withholding tax interest (Line 8(a) divided by Line 5(a))	60%
(b) Section 904(d)(1)(I) general limitation income (Line 8(b) divided by Line 5(b)	60%
10. Foreign income taxes of Corporation A deemed paid by Corporation M under section 902(a) attributable to:	
(a) Foreign income taxes of Corporation A deemed paid by Corporation M under section 902(a) with respect to section	\$9
904(d)(1)(B) high withholding tax interest (Line 6(a) multiplied by Line 9(a)).	
(b) Foreign income taxes of Corporation A deemed paid by Corporation M under section 902(a) with respect to section	\$15
904(d)(1)(I) general limitation income (Line 6(b) multiplied by Line 9(b).	
11. Post-1986 undistributed earnings in Corporation A at start of 1993 attributable to:	
(a) Section 904(d)(1)(B) high withholding tax interest (Line 5(a) minus Line 8(a))	12u
(b) Section 904(d)(1)(I) general limitation income (Line 5(b) minus Line 8(b))	28u
12. Post-1986 foreign income taxes in Corporation A at start of 1989 allocable to:	
(a) Section 904(d)(1)(B) high withholding tax interest (Line 6(a) minus Line 10(a))	\$6
(b) Section 904(d)(1)(I) general limitation income (Line 6(b) minus Line 10(b))	\$10

- (ii) For purposes of computing Corporation M's foreign tax credit limitation, the post-1986 foreign income taxes of Corporation A deemed paid by Corporation M with respect to income in separate categories will be added to the foreign income taxes paid or accrued by Corporation M associated with income derived from Corporation M's branch operation in the same separate categories. The dividend (and the section 78 inclusion with respect to the dividend) will be treated as income in separate categories and added to Corporation M's other income, if any, attributable to the same separate categories. See section 904(d) and § 1.904–6.
- (g) Effective date. This section applies to any distribution made in and after a foreign corporation's first taxable year beginning on or after January 1, 1987. § 1.902–2 Treatment of deficits in post-1986 undistributed earnings and pre-1987 accumulated profits of a first-, second-, or third-tier corporation for purposes of computing an amount of foreign taxes deemed paid under § 1.902–1.
- (a) Carryback of deficits in post-1986 undistributed earnings of a first-, second-, or third-tier corporation to preeffective date taxable years—(1) Rule. For purposes of computing foreign

income taxes deemed paid under § 1.902–1(b) with respect to dividends paid by a first-, second-, or third-tier corporation when there is a deficit in the post-1986 undistributed earnings of that corporation and the corporation makes a distribution to shareholders that is a dividend or would be a dividend if there were current or accumulated earnings and profits, then the post-1986 deficit shall be carried back to the most recent pre-effective date taxable year of the first-, second-, or third-tier corporation with positive accumulated profits computed under section 902. See § 1.902-3(c)(2). For purposes of this § 1.902-2, a preeffective date taxable year is a taxable year beginning before January 1, 1987, or a taxable year beginning after December 31, 1986, if the special effective date of § 1.902-1(a)(13) applies. The deficit shall reduce the section 902 accumulated profits in the most recent pre-effective date year to the extent thereof and any remaining deficit shall be carried back to the next preceding year or years until the deficit is completely allocated. The amount

carried back shall reduce the deficit in post-1986 undistributed earnings. Any foreign income taxes paid in a post-effective date year will not be carried back to pre-effective date taxable years or removed from post-1986 foreign income taxes. See section 960 and the regulations under that section for rules governing the carryback of deficits and the computation of foreign income taxes deemed paid with respect to deemed income inclusions from controlled foreign corporations.

(2) *Examples*. The following examples illustrate the rules of this paragraph (a):

Example 1. (i) From 1985 through 1990, domestic corporation M owns 10 percent of the one class of stock of foreign corporation A. The remaining 90 percent of Corporation A's stock is owned by Z, a foreign corporation. Corporation A is not a controlled foreign corporation and uses the u as its functional currency. 1u equals \$1 at all relevant times. Both Corporation A and Corporation M use the calendar year as the taxable year. Corporation A has pre-1987 accumulated profits and post-1986 undistributed earnings or deficits in post-1986 undistributed earnings, pays pre-1987 and post-1986 foreign income taxes, and pays dividends as summarized below:

Taxable year	1985	1986	1987	1988	1989	1990
Current E & P (deficits) of Corp. A		150u 300u	(100u) 200u (100u) -0-	100u 250u 100u 100u	-0- 250u 100u 50u	-0- 200u 50u 50u
Foreign income taxes of Corp. A (annual) Post-'86 foreign income taxes of Corp. A 12/31 distributions to Corp. M 12/31 distributions to Corp. Z		120u -0- -0-	\$10 \$10 5u 45u	\$50 \$60 -0- -0-	-0- \$60 5u 45u	-0- \$30 -0- -0-

(ii) On December 31, 1987, Corporation A distributes a 5u dividend to Corporation M and a 45u dividend to Corporation Z. At that

time Corporation A has a deficit of (100u) in post-1986 undistributed earnings and \$10 of post-1986 foreign income taxes. The (100u)

deficit (but not the post-1986 foreign income taxes) is carried back to offset the accumulated profits of 1986 and removed