

taxable year as of the close of the year (without diminution by reason of distributions during the year). ¶ 15,602-15,606.

Dividends paid deduction

For purposes of both the accumulated earnings and personal holding company taxes, the dividends paid deduction includes the dividends paid during the tax year and any consent dividends for the tax year. Dividends paid after the close of any tax year and on or before the 15th day of the third month following the close of the tax year are considered as paid during the tax year. (In the case of a personal holding company, the dividends paid deduction also includes the dividend carryover from the preceding two years.) Consent dividends are hypothetical dividends, and the amount specified in a properly filed consent will be treated as having been distributed to the shareholder on the last day of the corporation's tax year and immediately reinvested in the corporation as paid-in capital. ¶ 13,300, 13,301, 23,700-23,744.

Dividends received deduction

A corporation receives a 70% or 80% deduction—with limitations—for dividends it receives, unless it is an affiliated corporation that does not, or cannot, file a consolidated return. Such a corporation may elect a 100% dividends received deduction. ¶ 13,051-13,205.

Domestic International Sales Corporation (DISC)

A Domestic International Sales Corporation, commonly referred to as a DISC, is a domestic corporation whose income is predominantly derived from export sales and rentals. The profits of a DISC are not subject to income tax. Instead, the shareholders are taxed on these profits. Generally, half of the profits are taxed to them currently even though not distributed. The other half is taxed to them only when distributed, when a shareholder sells his stock or when the corporation no longer qualifies as a DISC. See "Foreign sales corporation (FSC)," below. ¶ 29,440-29,562.

Downstream merger

A downstream merger is effected when a parent corporation is merged into the subsidiary in a statutory merger and transfers the subsidiary's shares to its own shareholders in exchange for its own shares, which are then cancelled, as steps in consummation of the merger. ¶ 16,753.

Earned income

"Earned income" is a technical term that means (1) the income of a U.S. citizen working in a foreign country (for which an exclusion is granted), (2) the earnings of a retired person who is receiving retirement income in addition to income he earns, or (3) the earnings of a self-employed individual engaged in a business where both capital and personal services are income-producing factors (but the earned income of any year may not exceed 30% of his share of the net profits). ¶ 4080-4082, 28,640-28,649.

Earned income credit

An earned income credit is available to low-income workers who have qualifying children and maintain a household. The credit is based on "earned income," which includes wages, salaries and other employee compensation, foreign earned income, and earnings from self-employment (determined with regard to the deduction for one-half of self-employment taxes). Earned income does not include pension or social security benefits. The credit is equal to the credit percentage of a limited amount of earned income (\$7,140 for 1991). Effective for tax years beginning after 1990, the credit percentage will be increased over a four-year period. The credit percentage amount for 1991 is 16.7% for a taxpayer with one qualifying child and 12.3% for a taxpayer with two or more qualifying children. Thus, the maximum basic earned income credit for 1991 is \$1,192 for a taxpayer with one qualifying child and \$1,235 for a taxpayer with two or more qualifying children. The credit begins to phase out if earned income or adjusted gross income exceeds \$11,250 and is completely phased out at \$21,250. ¶ 4082.

Earnings and profits

Accumulated earnings and profits, as well as earnings and profits of the current tax year, measure the amount of a distribution by a corporation to its shareholders that