D, a domestic corporation, owns 80% of the outstanding stock of M, a foreign manufacturing corporation. M has earnings and profits of $200,000 for 1971 and 60% of its gross income for that year is effectively connected for 1971 with the conduct of a trade or business in the United States. For an uninterrupted period of 36 months ending on December 31, 1970, M has been engaged in trade or business in the United States and has received gross income effectively connected with the conduct of a trade or business in the United States amounting to 60% of its gross income from all sources for such period. The only distribution by M to D for 1971 is a cash dividend of $100,000; of this amount, $60,000 ($100,000 x 60%) is treated as income from sources within the United States, and $40,000 ($100,000 - $60,000) is treated under Reg. 1.862-1(a)(2) as income from sources without the United States. Accordingly, under section 245(a), D is entitled to a dividends-received deduction of $51,000 ($60,000 x 85%), and $40,000 ($100,000 - [$51,000 x 100/85]) is treated as income from sources without the United States for purposes of determining under section 904(a)(1) or (2) the limitation upon the amount of the foreign tax credit.