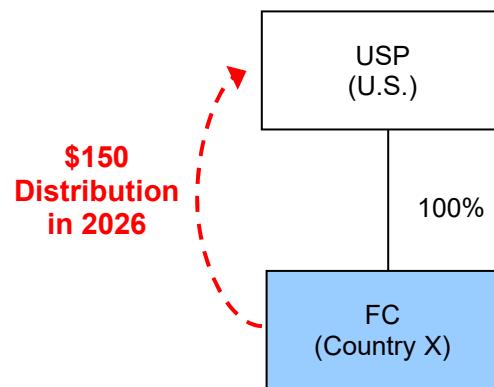


**Notice 2025-77,
§3.02 Example**

**Disallowance of 10% of FTCs
for 951A PTEP Distributions**

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| | Pre-6/25 951A PTEP | Post-6/25 951A PTEP | Non-PTEP | Total E&P |
|---------------------------------|-----------------------|------------------------|----------|-----------|
| E&P at 12/31/2023 | 0 | 0 | 0 | 0 |
| 951A PTEP created in 2024 | 100 | 0 | 0 | 100 |
| 951A PTEP created in 2025 | 0 | 100 | 0 | 100 |
| E&P created in 2026 | 0 | 0 | 0 | 0 |
| Distribution on 1/1/2026 | (50) | (100) | 0 | (150) |
| E&P at 12/31/2026 | 50 | 0 | 0 | 50 |
| Alloc'n of div. withholding tax | 10 | 20 | 0 | 30 |
| Disallowance under 960(d)(4) | | (2) | | (2) |
| Creditable FTCs | 10 | 18 | 0 | 28 |

USP, a domestic corporation, owns all the stock of a single foreign corporation (FC). FC, a Country X entity that is a CFC, has the U.S. dollar as its functional currency. Both FC and USP use the calendar year as their taxable year. FC does not have any accumulated E&P as of the beginning of its 2024 taxable year. FC earns tested income of \$100x for each of its 2024 and 2025 taxable years, and USP has a section 951A inclusion of \$100x in each of its 2024 and 2025 taxable years. FC has no income or loss in any of its subsequent taxable years. On January 1, 2026, FC makes a distribution of \$150x to USP, which is treated as a distribution of property for both Country X law and Federal income tax purposes. Country X imposes a withholding tax of \$30x with respect to the distribution. For its 2026 taxable year, USP claims the foreign tax credit under section 901.

The \$100x of PTEP, which results from a section 951A inclusion of USP in a taxable year of USP ending after June 28, 2025, constitutes post-06/28/25 section 951A PTEP, regardless of whether FC earned the related tested income before, on, or after June 28, 2025.

Under section 959(c) and §1.959-3(b), FC's \$150x distribution on January 1, 2026, constitutes a distribution of \$100x of FC's PTEP for its 2025 taxable year, and \$50x of FC's PTEP for its 2024 taxable year. Under §1.861-20(d)(3)(i)(B), \$100x of the foreign gross income related to the \$150x distribution is assigned to the post-06/28/25 section 951A PTEP group, and \$50x is assigned to the pre-06/29/25 section 951A PTEP group. Under §1.861-20(f), \$20x of the \$30x of Country X withholding tax (\$30x X \$100x/\$150x) is allocated and apportioned to the post-06/28/25 section 951A PTEP group, and the remaining \$10x (\$30x X \$50x/\$150x) is allocated and apportioned to the pre-06/29/25 section 951A PTEP group.

Under section 960(d)(4), \$2x (that is, 10%) of the \$20x of foreign tax credits otherwise allowable under section 901 with respect to the \$20x of Country X withholding tax allocated and apportioned to the post-06/28/25 section 951A PTEP group is disallowed.