

# BRANCH PROFITS TAX -- § 884(a)

## 1<sup>st</sup> – Calculate “Effectively Connected Earnings & Profits”

ECEP = current year’s effectively connected income - US tax thereon

## 2<sup>nd</sup> – Calculate change in “US net equity” during the year

i.e., US net equity at end of prior year vs. US net equity at end of current year

“US net equity” = “US assets” - “US liabilities” (§ 884(c))  
(use adjusted basis of assets)

## 3<sup>rd</sup> – Calculate “Dividend Equivalent Amount” (§ 884(b))

If increase in US net equity:  $DEA = ECEP - \text{increase in US net equity}$

If decrease in US net equity:  $DEA = ECEP + \text{decrease in US net equity}^*$

\* Add decrease in US net equity only to extent of prior years’ accumulated ECEP

## 4<sup>th</sup> – Calculate § 884(a) branch profits tax

Tax =  $DEA \times 30\%$  (or lower treaty rate for dividend, if applicable)