BRANCH PROFITS TAX -- § 884(a)

1st – Calculate "Effectively Connected Earnings & Profits"

ECEP = current year's effectively connected income - US tax theron

2nd – 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)

3rd – Calculate "Dividend Equivalent Amount" (§ 884(b))

If increase in US net equity: DEA = ECEP - increase in US net equity
If decrease in US net equity: DEA = ECEP + decrease in US net equity*

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

4th – Calculate § 884(a) branch profits tax

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