



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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CC:INTL:Br.3DBergkuist
COR-118233-01



Re: Your request for general information

Dear [REDACTED]:

This letter responds to your March 22, 2001, request for general information concerning section 1.863-1(c) of the Income Tax Regulations. Specifically, you inquire whether section 1.863-1(c) limits or excludes categories of income from being taxable income. As further explained below, section 1.863-1(c) is part of the rules that divide a taxpayer's taxable income between United States and foreign sources; it does not in any way limit or otherwise affect a taxpayer's overall taxable income.

A United States citizen is subject to tax on his or her worldwide income. The computation of taxable income begins with gross income. Section 61 of the Internal Revenue Code defines "gross income" as all income from whatever source derived. As a result, gross income includes all income earned or received from any geographic source. In the case of an individual, section 62 defines "adjusted gross income" as gross income minus certain listed deductions. Pursuant to section 63, "taxable income" generally means gross income minus those deductions allowed by the Code. For individuals who do not itemize their deductions, section 63(b) defines "taxable income" as adjusted gross income minus the standard deduction and the deduction for personal exemptions.

Section 863 of the Code addresses the source of items of gross income, expenses, losses, and deductions. The source of these items is either from within the United States or from without (i.e., outside of) the United States. Section 1.863-1(c) of the regulations provides that: "The taxpayer's taxable income from sources within or without the United States will be determined under the rules of sections 1.861-8 through 1.861-14T for determining taxable income from sources within the United States." Sections 1.861-8 through 1.861-14T provide guidance on how to determine a taxpayer's taxable income from United States and foreign sources, not whether

categories of income are included or eliminated from the computation of taxable income.

Section 863 and section 1.863-1(c) similarly classify items of income and expenses, losses or deductions between foreign and domestic (i.e., United States) sources and do not exclude or limit taxable income. The source of income and deductions is utilized under several provisions of the Code, most notably the foreign tax credit. While the determination of a taxpayer's foreign source and United States source taxable income may affect the amount of its foreign tax credit, it does not affect the taxpayer's overall taxable income. This determination is made under the rules of section 63.

We hope that this general information will prove helpful to you. If you have any further questions or comments, please call David Bergkuist (employee ID 50-00518) at (202) 622-3850.

Sincerely,

Barbara Felker
Chief, Branch 3
Office of the Associate Chief Counsel
(International)