

employees. Of the remaining 80 employees, five spend 20% of their time on activities related to investment capital and 40% of their time on activities related to subsidiary capital. The other 75 employees spend no time on activities relating to subsidiary or investment capital. The 15 employees engaged in activities relating to investment and subsidiary capital (ten from the accounting staff and five others) represent 25% of the total payroll of the taxpayer other than the payroll of the personnel department.

The taxpayer attributes 5% (25% X 20%) of the salaries and related employee benefit expenses and payroll taxes of the personnel department employees to investment capital and 10% (25% X 40%) to subsidiary capital. This method, based on time and payroll, is reasonable under the circumstances and is acceptable.

Example 4: The CEO of a corporation does not maintain detailed time records. However, she does maintain a diary that shows that she spends approximately 20% of her time in planning the corporation's strategy for investment in subsidiaries and 80% of her time in planning the corporation's strategy for developing, manufacturing and marketing its products. The taxpayer may elect to attribute the CEO's compensation package to business capital pursuant to paragraph A(3)(b)(i)(A)(m). None of the CEO's compensation package would then be attributed to subsidiary (or investment) capital.

Example 5: Income and Assets. Corp. X has \$10,000 of business income, \$4,000 of business assets, \$300 of income from subsidiary capital, \$1,000 of subsidiary assets, \$500 of investment income and \$2000 of investment assets. (Assets here are calculated without reduction for liabilities.)

Expenses. Corp. X has \$6,000 in noninterest expenses, of which \$3,500 is directly attributable to business capital and properly substantiated, including items on the list of expenses, which Corp X elects to attribute to business capital under paragraph A(3)(b)(i)(A) above.

Separate Operating Division. Corp. X has a manufacturing division that qualifies as an operating division. \$1,000 of the \$6,000 of noninterest expenses are attributable to that division and are not included in the \$3,500. Of that \$1,000, \$400 is wages and salaries, \$100 is for equipment rental and depreciation, and \$500 consists of items on the list in paragraph A(3)(b)(1)(A) above that Corp X elects to

directly attribute to business capital. Corp. X can substantiate that at least \$950 of the \$1,000 is directly attributable to business capital. Therefore, Corp. X may elect to attribute all \$1,000 of the expenses of that division directly to business capital and does so elect.

The total of directly attributable expenses is \$4,500. (\$1,000 from the division and \$3,500 from the corporation as a whole.)

Subsidiary and Investment Capital Combined Percentages

Subsidiary: [$\$300/\$10,800$ (income) + $\$300/\$10,800$ (income) + $\$1,000/\$7,000$ (assets)]/3 = 6.61%

Investment: [$\$500/\$10,800$ (income) + $\$500/\$10,800$ (income) + $\$2,000/\$7,000$ (assets)]/3 = 12.61%

Indirect residual noninterest deductions of \$1,500 (\$6,000 less the \$4,500 directly attributed to business) are attributed, 6.61% (\$99.15) to subsidiary capital and 12.61% (\$189.15) to investment capital. The remainder, \$1211.70 ($\$1500 - [\$99.15 + \$189.15]$) is attributed to business capital.

The total direct and indirect noninterest expense attribution is \$5711.70 to business, \$99.15 to subsidiary and \$189.15 to investment capital.

Example 6: Income and Assets. Corp. X has \$10,000 of business income, \$4,000 of business assets, \$300 of income from subsidiary capital, \$1,000 of subsidiary assets, \$500 of investment income and \$2000 of investment assets. (Assets here are calculated without reduction for liabilities.)

Expenses. Corp. X, a broker dealer, has \$5,000 in noninterest expenses, of which \$2,000 is substantiated as compensation of account representatives, \$1,000 is substantiated as for computer equipment and software and wire services used exclusively to manage customer accounts and execute customer transactions, \$1,000 consists of items on the list in paragraph A(3)(b)(i)(A) above that Corp. X elects to directly attribute to business capital and \$500 is substantiated as directly attributable to investment capital.

The total of directly attributable expenses is \$4,500. (\$4,000 to business capital and \$500 to investment

capital)

Subsidiary and Investment Capital Combined Percentages.

Subsidiary: [$\$300/\$10,800$ + $\$300/\$10,800$ +
 $\$1,000/\$7,000$]/3 = 6.61%

Investment: [$\$500/\$10,800$ + $\$500/\$10,800$ +
 $\$2,000/\$7,000$]/3 = 12.61%

Indirect residual noninterest expenses of \$500 are attributed 6.61% (\$33.05) to subsidiary capital and 12.61% (\$63.05) to investment capital. The remainder, \$403.90, ($\$500 - [\$33.05 + \$63.05]$) is attributed to business capital.

The total direct and indirect noninterest expense attribution is \$4403.90 to business, \$33.05 to subsidiary and \$563.05 to investment capital.