TAX LAW

DOÇ. DR. ATİLLA UYANIK

TAXATION RULES OF THE FINANCIAL INSTRUMENTS IN THE WORLD AND TURKEY (THEORY AND PRACTICES)

CONTENTS

I- INTRODUCTION…….. 2

II- AN OVERVIEW OF THE FINANCIAL SYSTEM:…… 3

III- TAX THEORY AND THE EFFECTS OF TAXATION IN FINANCIAL PRODUCTS ON THE FINANCIAL SYSTEM:…… 4

A- Taxation of Financial Products in General:…….. 5

B- Taxation of financial products in Turkey:……. 9

C- International Double Taxation Practices:…… 11

IV- Result…… 12

I- INTRODUCTION

The specialization and globalization of financial markets brought with it the development of financial means and techniques, first in developed countries and then in developing ones.

The need for long-term funds increasing in parallel to the economic growth on the one hand and the savers' interest in the investments on financial products on the other, made the financial markets an important organ of the economies.

A point that needs to be underlined in this connection, is the reliability of the financial products as well as the profit to be obtained. It goes without saying that the degree of reliance and the income earned from the assets are the main factors that make the financial products concerned demandable.

As an instrument to provide companies with the capital they need as well as a means of investment to increase savings in value, financial products represent the source of financial resources but also include the distribution of the latter. On a larger scale, their effects are felt on financial and economic policies.

In order to increase the workability of the capital and money markets, the regulations founding the basis of rapidly increasing financial products, have gained more importance.

The reduction of problems in the field of financial products thereby favors the addition of small savings to the economy in a profitable way, the end result of which will be their contribution in the development of the markets concerned.

The importance of the financial markets increases gradually depending on the economic and social development in a country. For instance, the saving qualifications, diffusion of possessions, use of financial products in manufacturing activities play a major role in spreading wealth and income to large communities.

In Turkey, especially after the 1980s, efforts were concentrated on modernizing the capital and money markets in parallel to changes in the world. With the acceptance of the capital market code no:2499 in 1981 (mostly changed with the code number 3794 in 1992), the capital market has been endowed

with special regulations.

It is a well-known fact that the saving owners need to be encouraged to offer their savings to the market and the borrowers to ensure funds from the market.

From this point of view, the tax policy has been an important instrument. In recent years, important changes have occurred in tax laws especially in GVK (income tax code) and KVK (Corporation income tax code) so that the tax exemption and exceptions are enlarged according to financial corporations (Like investment fund and association) and the profit that's obtained from the financial products.

This paper aims to focus on the effects of relevant regulations as well as the taxation of financial products over financial markets starting first with theoretical approaches in a systematical way.

The subject is treated widely in consideration to theory and application with a special emphasis to the practices both in the world and Turkey.

II- AN OVERVIEW OF THE FINANCIAL SYSTEM:

Financial markets (bond and stock markets) and financial intermediaries (bank, insurance companies, pension funds) have the basic function of channeling funds from those who have a surplus to those who have a shortage of funds. [1]

The financial system of the United States and other developed countries performs a number of functions that are essential for a modern private enterprise economy. Two of the most important of these functions are providing the means by which (1) payments for transactions are accomplished and (2) savings are accumulated and channeled into investment uses. Paying for

goods and services, saving, lending, borrowing, and investing are activities that are all carried out in the framework of instruments, institutions, and markets that constitute the financial system.

The major function of the financial system is to efficiently gather and allocate funds in the economy by bringing borrowers and lenders together. Borrowers and lenders can be households, business firms, government, and foreigners. [2]

After having seen how the financial system operates, we will now examine the effects of taxation on the financial system.

III- TAX THEORY AND THE EFFECTS OF TAXATION IN FINANCIAL PRODUCTS ON THE FINANCIAL SYSTEM:

Tax theory defines the burden of tax and who actually makes the tax payment to the government. The incidence of taxation is seen to fall on the person legally responsible for meeting the tax bill. [3]

The welfare costs or excess burden of taxation can be identified by reference to indifference curve analysis. The individual is assumed to be faced with a fixed budget which permits the choice of any combination of two goods. The slope of the budget, will reflect the relative prices of two goods that depends on taxation or not. Before taxation the individual will chose that combination of the two goods and thereby attain the highest level of welfare possible.

Tax capitalization is a topic that is not only of importance in itself, but also provides a convenient link between concept of incidence and concept of allocation. In addition the

concept once more warns against simply the face value analysis of taxation. [4]

We have seen that the twin objectives of economic growth and reduction of inequity can be secured best by reliance on progressive consumption taxes; but we have also that equity calls for this approach to be combined with the taxation of capital income under a progressive income tax. Given the potential conflict of the latter with investment incentives, it is surprising that much attention has been given to various devices by which detrimental investment effect can be minimized.

A- Taxation of Financial Products in General:

This section discusses various types of corporate stock and debt securities interest and tax considerations for these interests. Neither the Code nor the regulations provide a useful definition of “stock.” Stock has generally been defined, however, as an equity interest in a corporation, either common or preferred, voting or nonvoting.

Stock is frequently classified as common stock for tax purposes [5] if it is an equity interest with an unrestricted right to participate in the growth of a corporation. Common stock represents ownership of a corporation. “In general, the common stock bears the risk of full loss and enjoys the benefit of future appreciation.

Distinctions between preferred stock and debt are also relevant in determining whether a merger or corporate acquisition qualifies as a tax free reorganization. To qualify for tax free treatment, the shareholders of the corporation to be acquired must, to some extent, continue to have an equity interest in the enterprise after the merger. [6]

The two major tax questions with respect to preferred stock redemption's are whether mandatory redemption provisions reclassify stock as debt and whether a periodic redemption is subject to the rules of I.R.C..

Convertible stock is typically (although not always) preferred stock that is convertible into common stock of the issuing corporation. [7] The taxation of convertible stock is not governed by any single Code provision. Rather, one must look to various Code provisions, Treasury regulation often conflicting judicial decisions, and IRS pronouncements to ascertain the appropriate tax treatment of convertible stock.[8]

Simply stated, conversion is the exchange of one security for another. In general, the act of converting one type of stock into another type of stock in the same corporation is tax free to both the issuer and the owner of the stock. Stock conversions have generally been viewed as tax-free even though there is no explicit Code section authorizing such treatment.

The rationale behind treating the conversion of preferred stock into common stock of the same corporation as tax-free is that the conversion qualifies as a Type e reorganization (recapitalization). [9] Although the Code does not define "recapitalization", the term has been used to describe a reshuffling of a capital structure within the framework of an existing corporation. When convertible preferred stock sells at substantial premium to the market price of the common stock into which it is convertible, a purchase of the preferred stock may arguably represent an investment in the issuing corporation's common stock. As result, a subsequent conversion might be regarded under IRC. 1036, as a tax-free exchange of common for common.

Generally debt securities may be divided into four types. We discuss the special tax that apply to tax-exempt taxable securities in the following sections; "original issue

discount", "market discount bond", "purchase premiums" and "zero coupon securities".

In general, interest expense on debt securities is deductible for tax purposes (subject to the investment interest and personal interest) and includable in the income of the holders of the debt securities. Dividends paid on corporate stock are not deductible by the issuer, although certain corporate shareholders are eligible for the inter-corporate dividends deduction. As a result, many corporations have favored the issuance of debt over stock issuance's to raise additional funds.

The original issue discount is the difference between the issue price of a debt security and its stated redemption price at maturity. [10]The OID method used to adjust the issue price depends on the date the security is issued and whether it is a corporate government, short-term or tax-exempt security.

The taxpayer's basis in a security is increased by the amount of OID included in his income. If there was an intention (at the time of issuance) to call the debt security before maturity, gain on the sale or redemption of debt securities is treated as interest to the extent of the OID, minus that portion of the OID previously included in income. Redemptions pursuant to a mandatory sinking fund may evidence an intent to call debt securities before maturity. A mandatory sinking fund can also accelerate the inclusion of OID under the rules that apply to debt securities with serial maturity provisions as well. Gain realized on the exchange of OID debt securities issued with an intention to call the securities before maturity is not taxed as ordinary income if the gain is not otherwise recognized because of a non recognition Code provision such as I.R.C.

The issuer can deduct interest payments when paid on the deferred portion although the issuer can never deduct interest paid on the nondeductible portion.

A corporate holder of an applicable high yield discount obligation can qualify for the inter-corporate dividends deduction. In general, I.R.C. 163(e)(5)(B)(i) provides that solely for purposes of I.R.C. 243, 245, 246, and 246A, "the dividend equivalent portion of any amount incredible in gross income of a corporation under IRC 1272(a). In respect of an applicable high yield discount obligation shall be treated as a dividend received by such corporation from the corporation issuing such obligation. "The" dividend equivalent portion "is" the portion of the amount so incredible. This means that a corporate holder reports as interest income all OID calculated under I.R.C. 1272 and it might also be entitled to the inter-corporate dividends received deduction under I.R.C. 163(e)(5)(B).

A purchase premium is the amount that a purchaser pays to acquire a debt security in excess of its face value. A purchaser may be willing to buy a debt security at a premium if the security's interest rate or yield to maturity exceeds current market interest.

Bond premiums paid on taxable debt securities are deductible. A taxpayer can elect, on taxable bonds only, to deduct the amount of the amortizable premium for the taxable year in computing taxable income. If taxpayer does not elect to amortize premiums, he reports a loss on redemption. Such a loss is either capital or ordinary, depending on whether the debt security in his hands is a capital or ordinary asset (For a discussion of the tax treatment of bond premiums paid on tax-exempt securities.[11]).

Zero coupon securities are debt securities payable without interest at a fixed maturity date. Owners of taxable zeros report income on interest earned on a yearly basis. The United States Treasury issues STRIPS, and some brokerage firms and federal government agencies also issue taxable zeros. In addition, there are certificate of deposit zeros that are insured by the FDIC and corporate zeros. Finally, there is a

market for zero coupon convertible bonds.

Treasury securities include both marketable securities (i.e., Treasury bills, notes, and bonds) and no marketable securities (e.g., savings bonds). With some exceptions discussed in this section, Treasury securities are generally treated for federal income tax purposes in the same way as other debt securities. Treasury securities, however, are exempt from all taxes imposed by state and local governments, except for estate or inheritance taxes, franchise taxes, and other no property taxes imposed on corporations.

Pass-through certificates, typically ownership interests in trusts- represent undivided ownership interests in each asset making up the pool. This characterization can be significant for mutual savings banks, cooperative banks, domestic building and loan associations, and other savings institutions as defined in I.R.C.

A pass-through certificate owner, as the beneficial owner of each underlying asset, should technically calculate income or loss on each asset separately. As a practical matter, however, allocation to each asset is usually not necessary because the tax results are usually the same i.e the assets are viewed separately or in the aggregate.

A certificate owner’s gain or Ioss on the sale of a pass-through certificate is based on the difference between the certificate’s tax basis and the net proceeds on the sale. Investors and traders obtain capital gain or loss, reduced by any gain attributable to interest or discount income, which is taxable at ordinary income rates. Dealers, hedgers, and certain financial institutions obtain ordinary income.

The taxation of pass-through certificates purchased at their principal amounts is relatively straightforward. The only interest element is the stated interest amount. Principal payments are a tax-free return of capital.

Pay-through bonds are the debt obligations of corporate and owner trust issuers, which means that an owner of a pay-through bond simply owns a debt security subject to all of the tax rules that generally apply to debt securities. In brief summary, a pay-through bond owner does not own an interest in the underlying assets used to collateralize the loan. Pay-through bond owners are taxed on the payments they receive from the entity that issues the pay-through bonds (for cash method taxpayers) or as they accrue (for accrual method taxpayers), not on the payments the entity is entitled to receive on the pooled assets it owns.

The tax rules that apply to holders of debt securities turn on whether the securities are purchased at their nominal value, purchased at premium, or purchased at a discount. As a result, it is necessary to separately consider the tax treatment of pay-through bonds purchased in these ways to determine the appropriate tax treatment for an owner of a pay-through bond. The remainder of this section highlights these issues.

B- Taxation of financial products in Turkey:

In general, the provisions related to the taxation of financial instruments and to the tax exception or exemptions concerned are being applied through Income Tax Code and Corporate Tax Code, the circulars relative to these laws and other regulations.

Our tax system foresees two elements in the taxation of the securities concerned. These can be classified as follows;

-taxation at source,

-taxation while the income is earned,

In the taxation at source, when the income is received, it is taxed by a certain percentage by the tax responsible.

The remaining balance is paid to those who are entitled. In

this case, the withholding rates indicated in article 94 of the Income Tax Law are applied.

In the taxation while the income is earned, in case a commercial enterprise or institution earns the said income, it is declared together with the other earnings as a whole with an income tax return or a corporate tax return.

Essentially, the difference between the Income Tax Code and Corporate Tax Code arrangements lies in the way of taxation. From the point of view of taxation, the tax payer according to the Income Tax Code is real person whereas in the Corporate Tax Code it is legal entity.

The tax law structure has been tried to analyze and interprete in the light of this provision with emphasis on its nature and income structure.

The provisions of Article 75 of the Income Tax Code constitute the basis in the taxation of income received from securities. In the above article dividends, rents and similar revenues which are obtained through the ownership of cash capital or assets represented in terms of monetary units have been defined as capital incomes.

The following revenues have been accepted as capital incomes irrespective of their sources;

a- The dividends of all kinds of shares.

b- The earnings arising from equity participations.

c- The dividends paid to the Chairman and Board members of the companies.

d- The part of the corporate profit calculated by deducting the corporate tax from the gross corporate profit before the exception and exemptions.

e- The interest of all types of bonds and treasury bond as

well as the incomes secured from the securities issued by Mass Building Administration and Public Participation Administration.

f- Interest on all kinds of receivables.

g- Interest on deposits.

h- The proceeds obtained from the sale of unmeasured coupons of shares and bonds.

I- The payments received in cash and in kind in return for the turnover of the unaccrued profit shares

i- Discount proceeds received in return for the all kinds of bonds discounted.

The provisions relating to the taxation of securities of Corporate tax are indicated in article 7 and 8 of Corporate income Tax Code concerning exemptions. The tax burden on the funds qualified as an institution is indicated in the provisions concerning exemptions.

Corporate earnings exempted from corporate tax including institutions with limited liability are mentioned in article 8 of corporate income tax code.

According to Income Tax Code Article 75(2), the income received from all kinds of bonds interest and treasury bonds interest along with the securities issued by public corporations are considered as capital income. Tax withholding from the capital income is foreseen in Article 94 of the above mentioned law and in Article 24 of Corporate income Tax Code.

Interest income on these securities and earnings obtained from their sale are subject to different taxation principles and procedures according to their status and their tax responsibilities.

C- International Double Taxation Practices:

The fundamental element in international double taxation is the aim of preventing double taxation which may give rise to negative developments on economic and legal basis, by determining the methods and principles of the taxation of income obtained within the framework of international goods, capital and service flow.

The international double taxation has been defined by the Organization for Economic Co-operation and Development-OECD and the United Nations-UN by doing research in the area concerned.

According to this definition, international double taxation is the taxation by two (or more) states of the tax liable in the same taxation period in relation with the same tax subject with the same taxes.

The concept of double taxation can be both national and nature. On the other hand, double taxation can also appear in two dimensions namely economic and double taxation.

The international economic double taxation can be explained with an example. One of the conditions for the real person and institutions in the status of full taxpayer to receive their tax receivable is the taxation of these payments considered to be dividend in the country concerned. The tax receivable is part of the corporate tax paid from the corporate earnings which constitute the source of the dividend and it aims at preventing the economic double taxation partially .

In case, some part of the corporate tax paid in the other country can be counted in annual income declaration to be given in the country concerned, there will be a real reduction in the tax burden.

The idea of concluding agreements aiming at preventing double taxation on income can arise in the case when there is an intensive flow of capital, service, technology of such an international potential.

Fundamentally, such agreements are arranged in order to avoid the obstacles to industrial investment and commercial transactions realized through capital, technology and service flows caused by double taxing the same income between two countries.

IV- Result

The financial system has increasingly gained importance following the developments in this area since the 1970s. In this context, the way in which the financial markets, products and structures of institutions have evolved and the factors which might enable the continuation of this development, have become important items on the agenda.

In general, the financial system comprises the financial markets where the transactions of the financial instruments of both private and public sector institutions take place.

The economic evaluations and regulations done in this area have shown that the financial products should be dealt with separately. It can also be said that the financial product markets should be subject to separate specific arrangements to operate on national and international levels.

As is known, there is an ongoing globalization process in world financial markets. The globalization trend in the financial markets can be related to three following factors: the liberalization of big financial markets and their restructuring; the developments in the communication and computer technology; the institutionalization of financial markets. The most important part of these developments occurs

in the equity and bond markets. The tendency of globalisation noticed in the bond markets resulted in the formation of two different markets, namely national and international. As our studies show, the markets which have a biggest share in the equity and bond markets are the markets of USA and Japan, followed by the United Kingdom and Germany. Consequently, the regulations, methods and principles related to practice in the USA constituted an example in a way for other countries.

On the other hand, the variety of new financial instruments is increasing every day due to the big and continuous change in the financial markets. The newly developed financial instruments are used as the derivatives of the existing ones and are generally traded for risk transfer. These instruments mentioned as futures markets can be in the forms of option, future, forward and swap. When these transactions are analyzed, it is seen that these instruments are traded over equity indexed debt commitments in order to hedge against the changes in the equity prices, interest rates and exchange rates.

As far as the financial markets in Turkey are concerned, it appears that efforts have been made since the mid 1980s to catch up with the development dynamics in the international financial system on the one hand and to put into practice the products which have been developed on the other. The continuation of this positive development and structuring naturally requires the harmonization of the legal framework related to the financial markets with the international standards. Studies continue to complete the legal framework in this regard but it is not yet adequate.

The financial markets and the financial products in Turkey have become operational in terms of legal structure and institution, with the Capital Market Code.

The regulations on the issue and transactions of the existing and new financial products are made by the Capital Market

Board.

A detailed and on time prepared relevant legal framework is an important factor for the development of the market.

On the other hand, taxation, which is considered to be another important factor in this regard, must also be taken into account.

In this context, the extension of tax exception and exemption by making the necessary arrangements in tax legislation and the establishment of a reasonable taxation system would facilitate the efforts in these subjects.

Within the context of the analyses in terms of taxation theory, it appears that the taxation in financial products has a very important impact on the financial markets.

One aspect would be the high degree of tax burden on financial product holders and the negative impact on the market in case this burden can not be reflected. However, it’s been understood that it has a positive impact on increasing the operation ability of the market.

On the other hand, taxes affect the investment preferences and resource distribution and can be contrary from time to time to the financial and social aims which are pursued. The efficient distribution of resources can only be possible with the benefit analysis.

It can be said that the tax policies to be applied in parallel to the yield to be obtained has an important effect in orienting markets.

The regulations concerning financial products constitute the second part of the study. It has been understood that legal arrangements have a confidence increasing nature and play an important role in enhancing the operation ability of the market.

For instance, provisions concerning preferred stocks are not mentioned in the Turkish Commercial Code. As far as debt notes are concerned, it is indicated that they are only securities. Therefore, the holders of such instruments do not have any priorities to claim, on their receivable.

While evaluating their savings, the savings owners prefer investments with highest return. Consequently, they invest in products subject to tax exempt or low tax. Because of its final nature, the tax incidence is not possible. It is obvious in this analysis that the tax on financial assets will affect demand considerably.

In recent years specifically in developing countries, the tax burden on financial instruments has been removed or alleviated in order to increase demand to financial products and to contribute to the development of capital markets.

From the study of the financial statements of companies, it has been gathered that the major part of the profits has been formed of interest and other income from the non-operational activities. This, however, creates a contradiction. Whereas trade on securities and receiving income through buying and selling securities is promoted, the savings can not be channeled to investments thereby failing to encourage economic growth.

Another important subject accentuated in our study, is the fact that regulations to be made according to the type of taxation should have parallel provisions. In our study, incomes received from financial products are analyzed from two different angles namely institutions and real persons.

Whereas income from a financial investment is not subject to tax in case of real person, threesome income received by a corporation is subject to taxation. The taxation or being tax-exempt of the profits received, will have an increasing or decreasing effect on real profit. The income distribution and equitable taxation are the factors to be taken into account by calculating the macro variables while realizing the above mentioned point together with the taxation policies that will apply.

In addition, it is considered that with losses which might arrive, the tax burden are stopped due to the fact that the provisions of the agreements aiming at preventing double taxation to which Turkey is a part, relating to the interest, dividend income and earnings from increase of the value concerning financial product provide periodical advantages. We can say that the importance of financial markets has increased in the world and Turkey in relation to the economic developments. The fact that the existing financial institutions and financial products spread within the financial system, affects the financial markets from different angles.

Our study underlines the importance of fundamental regulations that govern financial markets and their role in increasing the operation ability of the market with special emphasis on taxation policy as a means of supporting financial products.

It can be said that taxation, the tax exception and exemptions aiming at developing financial markets are applied differently according to the income receivers. It is understood that the financial products offered by the state and its agencies and the financial products offered by companies are subject to low tax or exception. In case of income receivers, tax exception and exemption are provided to real persons in order to evaluate the rather small savings and to encourage their participation in the market.

It has been laid down in this study that the tax exceptions, low taxations and adequate regulations affect the financial markets by increasing the demand for financial products and their issuances.

SOURCES

BITTKER, B. – EUSTICE, C., **Federal Income Taxation of Corporations and Shareholders,** 5th ed. 1987.

CULLIS, John – JONES, Philip, **Public Finance and Public Choise,** Analytical Perspectives, London 1992.

HOFFMAN, William H., **West's Federal Taxation: Corporations,** Part-nerships, Estates and Trusts, West Publishings Co., 1982.

MCCAFFERTY, STEPHEN, " Optimal Taxation of Capital Income", Public Finance, Vol. 49(2), 1994.

MENGÜTÜRK, Muhsin, **International Finance**, 2th ed., Literatür Yayýnlarý, Ýstanbul, Ekim 1995.

MENTZ, **The Colleteral Tax Consequences of Ýnvestment in Municipal Obligations,** 35 Tax Law, 1982, s.603-610.

MILLER, Merton H., "Financial Innovation:The Last Twenty Years and the Next" **Journal of Financial and Qvantitative Analysis**, Vol.21, No.4, December 1986.

MISHKIN, Frederic S., **The Economics of Money, Banking and Financial Markets,** 4th ed., Harper Collins, New York 1995.

MITCHELL, Zero Coupon Convertibles Find a Market, **Wall St.J**., Dec.11, 1989, s.11-15.

MORAN, J. Michael, "The Federally Sponsored Credit Agencies:

An Overview," **Federal Reserve Bulletin** (June 1986), s.370-8.

MÜMINOGLU, Miray, **Yeni Mali Ürünler ve Türkiye'de Uygulamasi için Gerekli Düzenlemeler**, Ankara 1994.

MUSGRAVE, A. Richard, (Çeviren:Þener, Orhan), **Kamu Maliyesi Teorisi,** Istanbul 1987.

MUSGRAVE, A.Richard – MUSGRAVE, B.Peggy, **Public Finance ýn Theory and Practice,** 2nd ed. , Tokyo, McGraw-Hill Kogagusha Ltd. ,1976.

MUSGRAVE, Richard A. – PEACOCK, Alan T., **Classics in the Theory of Public Finance,** St.Martin's Press, 1994.

MUSGRAVE, Richard A.- MUSGRAVE,Peggy B.,**Public Finance In Theory and Practice,** 5th ed., McGraw-Hill, New York 1989.

NADAROGLU, Halil, **Kamu Maliyesi Teorisi**, 9.Basý, Beta Yayin, Istanbul 1996.

WINKLER, More Issuers Prefer Issues of Preferred, **Wall St. J.** , Aug. 17, 1989, s.c1.

---

[1] Mishkin, Frederic S., The Economics of Money, Banking and Financial Markets, Fourth Edition, New York 1995, s.21.

[2] Mengütürk, Muhsin, International Finance, Second Edition, Istanbul, Ekim 1995, s.25.

[3] Cullis, John – Jones, Philip, Public Finance and Public Choice, Analytical Perspectives, London 1992, s.

181-182.

[4] Musgrave, R. A. ve Musgrave, P.B., a.g.e., s. 381-382.

[5] I.R.C. § 305 (b).

[6] Hoffman, William H., West’s Federal Taxation: Corporatins , Partnerships, Estates and Trusts, New York 1982, s.131-137.

[7] Mccafferty, Stephen, ” Optimal Taxation of Capital Income”, Public Finance, Vol. 49(2), 1994, s.179-185.

[8] Winkler, More Issuers Prefer Issues of Preferred, Wall St. J. , Aug. 7, 1989, at c1.

[9] Hoffman, W. H., a.g.e., s.238-239.

[10] Bittker,B.- Eustice, C., Federal Income taxation of Corporations and Shareholders, 5th ed. 1987, s.27.

[11] Bittker,B.- Eustice, C., Federal Income taxation of Corporations and Shareholders, 5th ed. 1987, s.27