**8784. What is the personal holding company tax that a C corporation may be subject to? When does the tax apply?**

In addition to the typical corporate tax rates (Q 8779) and accumulated earnings penalty tax (Q 8783), a second penalty tax, called the personal holding company (PHC) tax, may be imposed to prevent shareholders from avoiding personal income taxes on securities and other income-producing property placed in a corporation to avoid higher personal income tax rates. The PHC tax is 20 percent (15 percent for tax years beginning prior to 2013) of the corporation’s undistributed PHC income (taxable income adjusted to reflect its net economic income for the year, minus dividends distributed to shareholders), if the corporation meets both the “stock ownership” and “PHC income” tests.[[1]](#footnote-1)

A corporation meets the “stock ownership” test if more than 50 percent of the value of its stock is owned, directly or indirectly, by or for not more than 5 shareholders.[[2]](#footnote-2) Certain stock owned by families, trusts, estates, partners, partnerships, and corporations may be attributed to individuals for purposes of this rule.[[3]](#footnote-3)

A corporation meets the “PHC income” requirement if 60 percent or more of its adjusted ordinary gross income is PHC income, generally defined to include the following: (1) dividends, interest, royalties, and annuities; (2) rents; (3) mineral, oil, and gas royalties; (4) copyright royalties; (5) produced film rents (amounts derived from film properties acquired before substantial completion of the production); (6) compensation from use of corporate property by shareholders; (7) personal service contracts; and (8) income from estates and trusts.[[4]](#footnote-4)

1. . IRC Secs. 541, as amended by ATRA, 542, 545. [↑](#footnote-ref-1)
2. . IRC Sec. 542(a)(2). [↑](#footnote-ref-2)
3. . IRC Sec. 544. [↑](#footnote-ref-3)
4. . IRC Secs. 542(a)(1), 543(a). [↑](#footnote-ref-4)