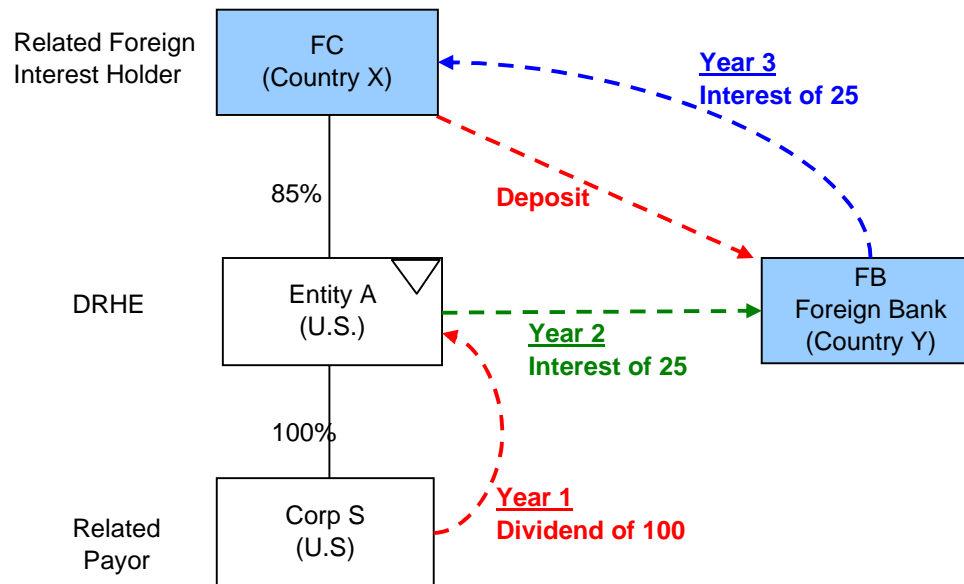


Reg. 1.894-1(d)(2)(iii), Example 8

Copyright © 2006 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

Interest Paid to Foreign Bank Pursuant to a Financing Arrangement



▽ Domestic reverse hybrid entity ("DRHE") - Not fiscally transparent (not "flow-thru") for U.S. tax purposes but fiscally transparent for foreign tax purposes.

The facts are the same as in Example 7, except that in year 3, FB makes an interest payment of \$25 to FC on a deposit made by FC with FB. The analysis is the same as in Example 1 with respect to the \$100 dividend payment from S to A. Because the \$25 payment from A to FB in year 2 is made in connection with a transaction that constitutes a financing arrangement, the payment may be treated by the IRS as being made directly to FC. If the IRS disregards FB, then the \$25 interest payment in year 2 will be treated as a dividend to the extent the payment does not exceed FC's share of the \$100 dividend payment made by S to A (\$85).

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)