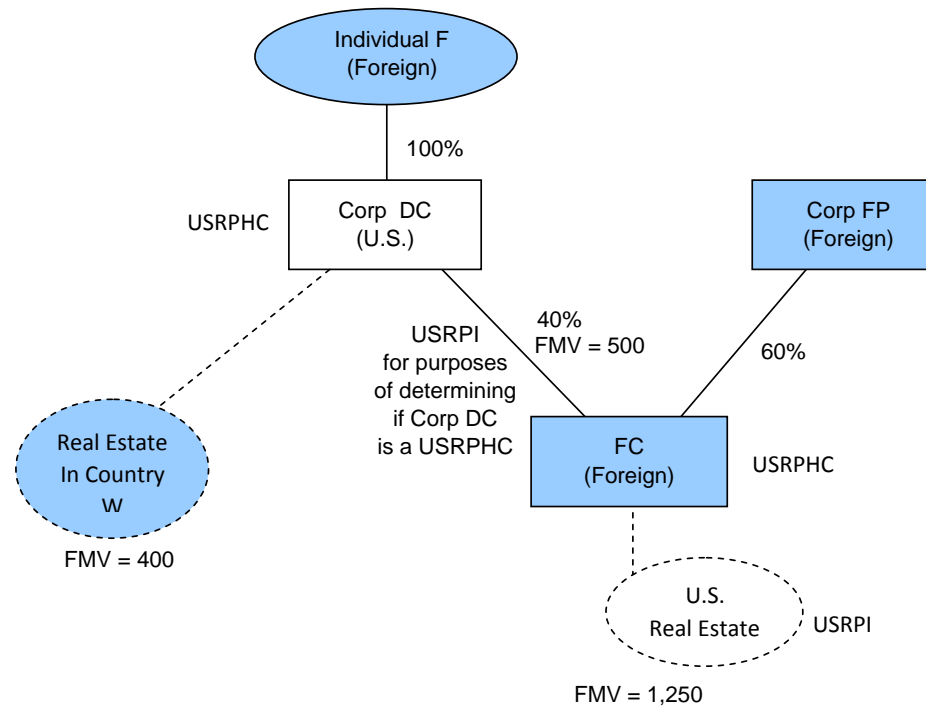


Reg. 1.897-2(e)(1), Example 1

U.S. Real Property Holding Corporation -- Interest in Foreign Corporation

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Nonresident alien individual F holds all of the stock of domestic corporation DC. DC's only assets are 40 percent of the stock of foreign corporation FC, with a fair market value of \$500,000, and a parcel of country W real estate, with a fair market value of \$400,000. Foreign corporation FP, unrelated to DC, holds the other 60 percent of the stock of FC. FC's only asset is a parcel of U.S. real estate with a fair market value of \$1,250,000. FC is a U.S. real property holding corporation ("USRPHC") because the fair market value of its U.S. real property interests ("USRPIs") (\$1,250,000) exceeds 50 percent (\$625,000) of the sum of the fair market values of its USRPIs (\$1,250,000), its interests in real property located outside the United States (zero), plus its other assets used or held for use in a trade or business (zero). Consequently DC's interest in FC is treated as a USRPI. DC is a USRPHC because the fair market value (\$500,000) of its USRPI (the stock of FC) exceeds 50 percent (\$450,000) of the sum (\$900,000) of the fair market value of its USRPIs (\$500,000), its interests in real property located outside the United States (\$400,000), plus its other assets used or held for use in a trade or business (zero). If F disposes of her stock within 5 years of the current determination date, her gain or loss on the disposition of her stock in DC will be treated as effectively connected with a U.S. trade or business under section 897(a). However, FP's gain on the disposition of its FC stock would not be subject to the provisions of section 897(a) because the stock of FC is a USRPI only for purposes of determining whether DC is a USRPHC.

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