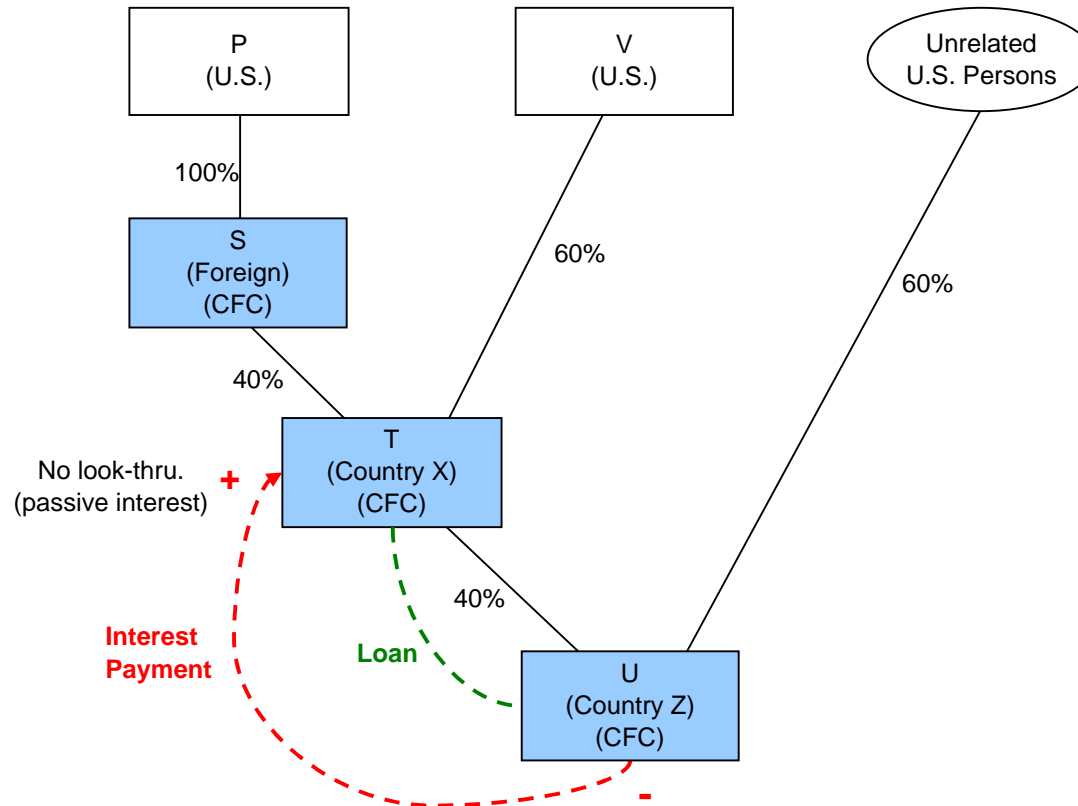


Reg. 1.904-5(i)(5), Example 1

No Look-Thru For Interest (40% Ownership)

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P, a domestic corporation, owns all of the stock of S, a CFC. S owns 40% of the stock of T, a Country X corporation that is a CFC. The remaining 60% of the stock of T is owned by V, a domestic corporation. The percentages of value and voting power of T owned by S and V correspond to their percentages of stock ownership. T owns 40% (by vote and value) of the stock of U, a Country Z corporation that is a CFC. The remaining 60% of U is owned by unrelated U.S. persons. U earns exclusively general limitation non-subpart F income. In 2001, U makes an interest payment of \$100 to T. Look-through principles do not apply because T and U are not related look-through entities (because T does not own more than 50% of the voting power or value of U). The interest is passive income to T, and is subpart F income to P and V. Look-through principles determine P and V's characterization of the subpart F inclusion from T. P and V therefore must characterize the inclusion as passive income.

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