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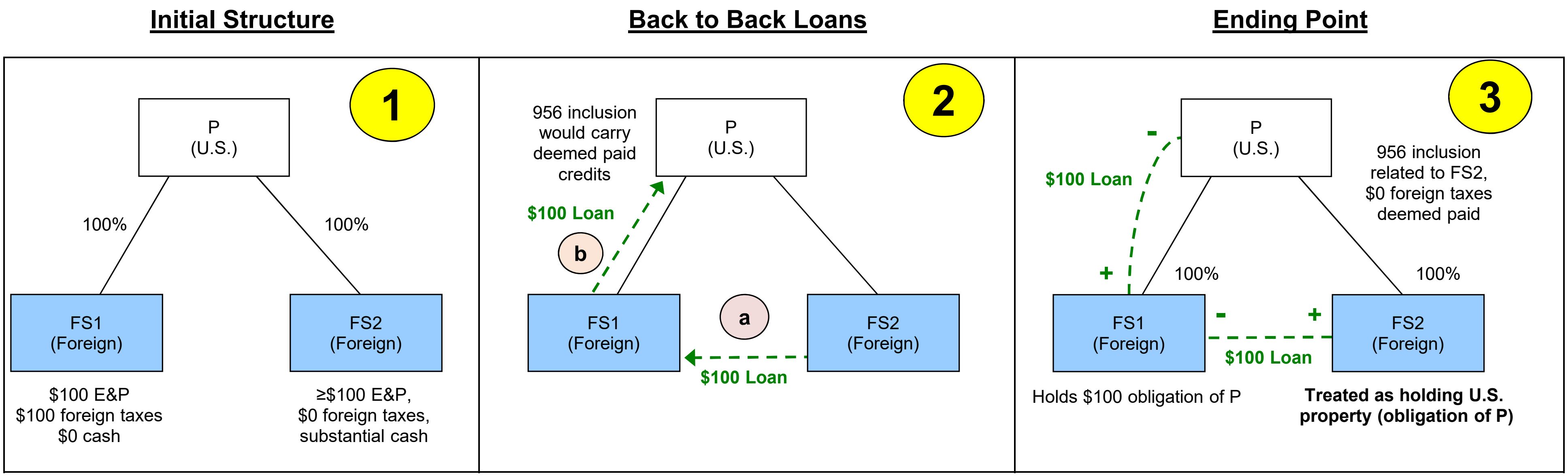
Reg. 1.956-1(b)(4), Ex. 3

U.S. Property Held Indirectly by a CFC - Back to Back Loans



P is a domestic corporation that wholly owns two controlled foreign corporations, FS1 and FS2.

FS1 has $100x of post-1986 undistributed earnings and profits and $100x post-1986 foreign income taxes, but does not have any cash. FS2 has earnings and profits of at least $100x, no post-1986 foreign income taxes, and substantial cash. Neither FS1 nor FS2 has earnings and profits described in Code §959(c)(1) or Code §959(c)(2). FS2 loans $100x to FS1. FS1 then loans $100x to P. An income inclusion by P of $100x under Code §§951(a)(1)(B) and 956 with respect to FS1 would result in foreign income taxes deemed paid by P under Code §960. A principal purpose of funding FS1 through the loan from FS2 is to avoid the application of Code §956 with respect to FS2.

Under Treas. Reg. §1.956-1(b)(1)(ii), FS2 is considered to indirectly hold the $100x obligation of P that is held by FS1. As a result, P has an income inclusion of $100x under Code §§951(a)(1)(B) and 956 with respect to FS2, and the foreign income taxes deemed paid by P under Code §960 is $0. P does not have an income inclusion under Code §§951(a)(1)(B) and 956 with respect to FS1 related to the $100x loan from FS1 to P.