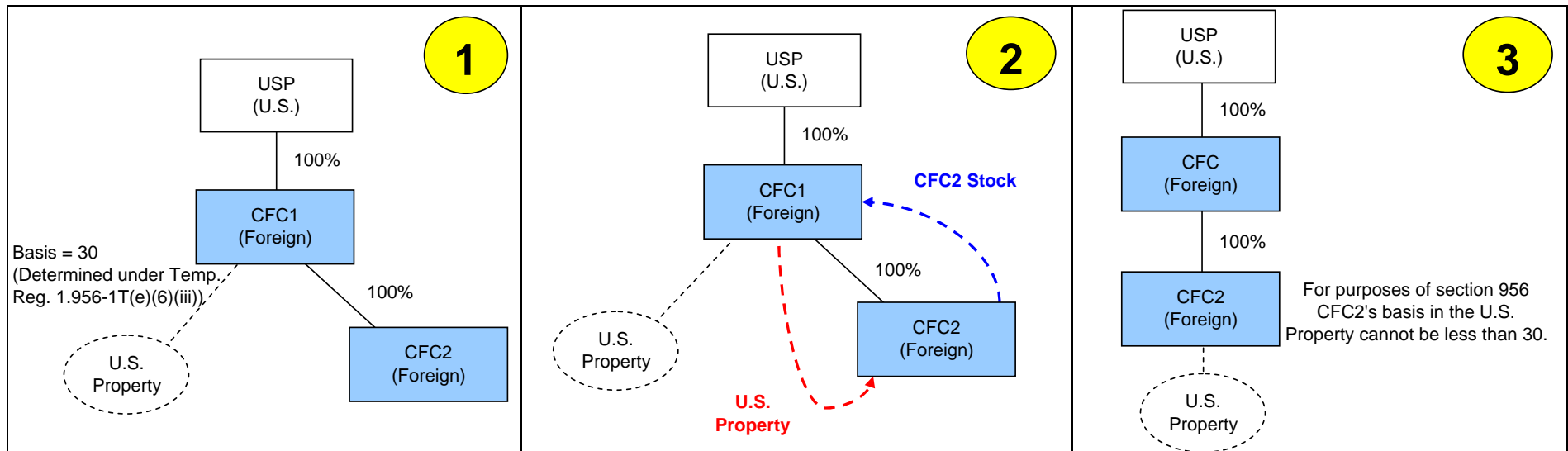


956 Basis on Transfer to Related Party

Initial Structure

351 Exchange

Ending Point



USP, a domestic corporation, owns 100 percent of the stock of CFC1, a controlled foreign corporation. CFC1 holds United States property (within the meaning of Temp. Reg. 1.956-1T(e)(6)(ii)) with a basis of \$30x for purposes of section 956 that was determined under Temp. Reg. 1.956-1T(e)(6)(iii). CFC1 owns 100 percent of the stock of CFC2, a controlled foreign corporation. CFC1 transfers the United States property to CFC2 in an exchange described in section 351. CFC2's basis in the United States property is determined under section 362(a).

In the section 351 exchange, CFC1 transferred United States property to CFC2 with a basis that was determined under Temp. Reg. 1.956-1T(e)(6)(iii). Further, CFC2's basis in the United States property is determined under section 362(a) by reference, in whole or in part, to CFC's basis in such property. Therefore, for purposes of section 956, pursuant to Temp. Reg. 1.956-1T(e)(6)(v) CFC2's basis in the United States property shall be no less than \$30x. Temp. Reg. 1.956-1T(e)(6)(v) would also apply if CFC2 subsequently transfers the United States property to another person related to CFC1 (within the meaning of section 954(d)(3)) if such related person's basis in the United States property is determined by reference, in whole or in part, to CFC2's basis in such property.