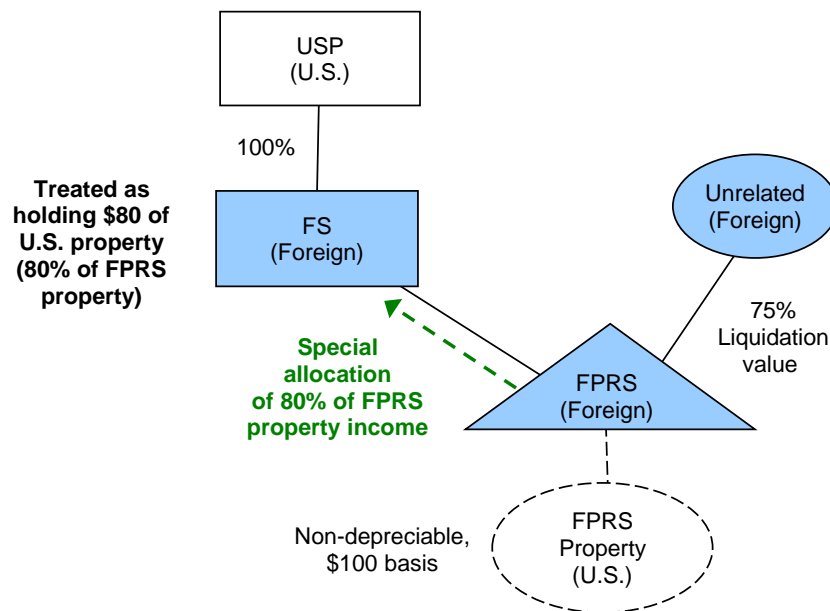


Reg. 1.956-4(b)(3), Ex. 2

U.S. Property Held Indirectly Through Foreign Partnership With Special Allocation

Copyright © 2016 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



USP, a domestic corporation, wholly owns FS, a controlled foreign corporation, which, in turn, owns an interest in FPRS, a foreign partnership. The remaining interest in FPRS is owned by an unrelated foreign person. FPRS holds nondepreciable property with an adjusted basis of \$100x (the “FPRS property”) that would be United States property if held by FS directly. At the close of quarter 1 of year 1, the liquidation value percentage, as determined under Treas. Reg. §1.956-4(b)(2), for FS with respect to FPRS is 25%. The FPRS partnership agreement, which satisfies the requirements of Code §704(b), specially allocates 80% of the income with respect to the FPRS property to FS. The special allocation does not have a principal purpose of avoiding the purposes of Code §956.

Under Treas. Reg. §1.956-4(b)(1), for purposes of Code §956, FS is treated as holding its attributable share of property held by FPRS with an adjusted basis equal to its attributable share of FPRS's adjusted basis in such property. In general, FS's attributable share of property held by FPRS is determined in accordance with FS's liquidation value percentage. However, because the special allocation does not have a principal purpose of avoiding the purposes of Code §956, under Treas. Reg. §1.956-4(b)(2)(ii), FS's attributable share of the FPRS property is determined by reference to its special allocation. FS's special allocation percentage for the FPRS property is 80%, and thus FS's attributable share of the FPRS property is 80% and its attributable share of FPRS's basis in the FPRS property is \$80x. Accordingly, for purposes of determining the amount of United States property held by FS as of the close of quarter 1 of year 1, FS is treated as holding **HUNDREDS of additional charts at www.andrewmitchel.com** with an adjusted basis of \$80x.